

Book- Keeping

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—
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TUM



Uhrenturm der TUM

Accounting history: starting with single-entry bookkeeping

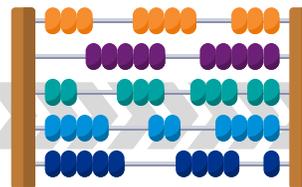
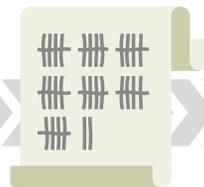
- **Single-entry bookkeeping (=list of assets)** is as old as civilization
- Initiated in Babylonia and Egypt around 4000 BC. Clay tablets were used to record the transaction



Rechensteine aus Susa



Receipt of wool on clay tablet.
between 2200 B.C. and 1900 B.C.



Who was the „father“ of double-entry bookkeeping ?



Double-entry bookkeeping system of account was invented and introduced 1494.

Pacioli declares that a successful merchant needs three things:

- **Sufficient cash or credit,**
- **good keepers and**
- **an accounting system which allows him to view his finances at a glance.**

If the total of left side and right side does not tally Pacioli says:

“that would indicate a mistake in your ledger, which mistake you will have to look for diligently with the industry and intelligence God gave you.”



“give the trader without delay information as to his assets and liabilities.”

(Fra Luca Bartolomeo de Pacioli (1445, Father of Double Entry System of account in 1494 at Venice/Italy)

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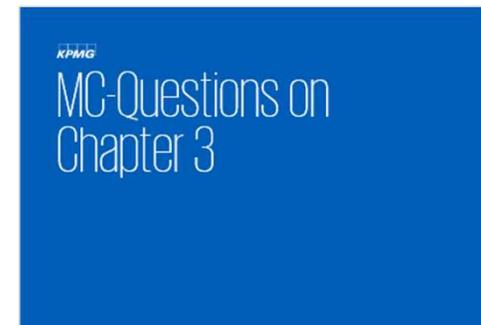
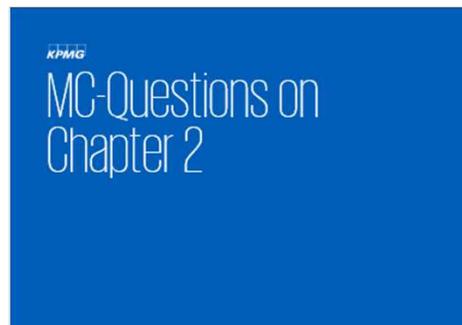
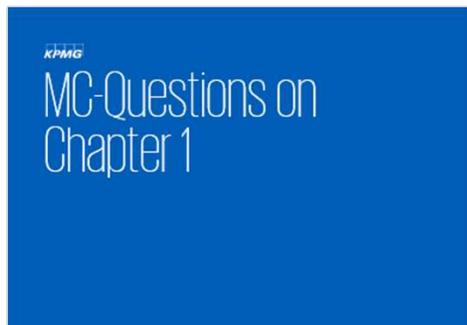
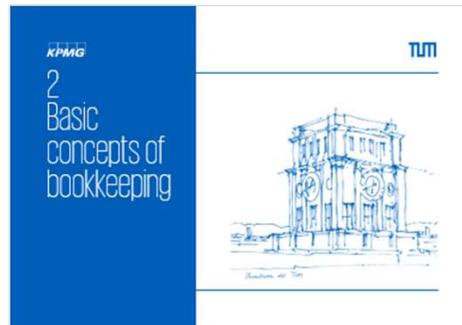
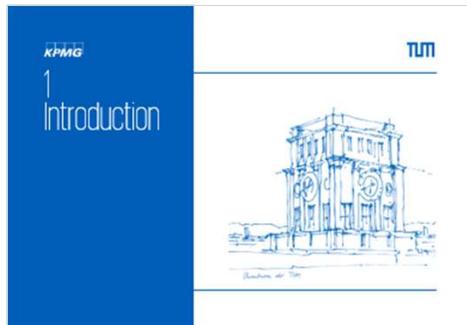
Basic concepts of bookkeeping

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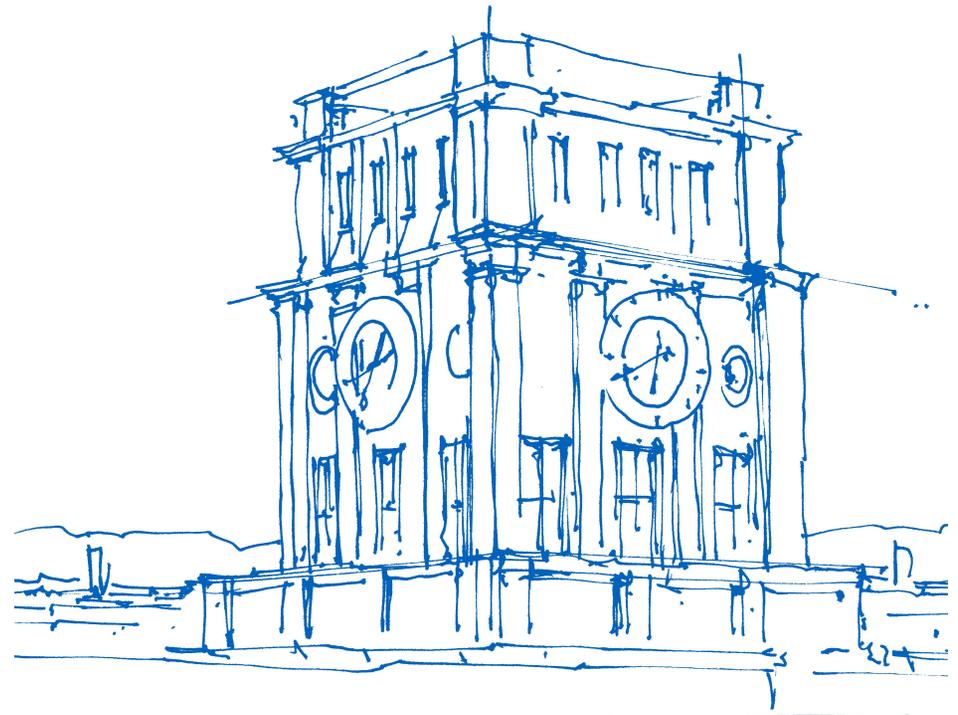
Basic concepts of year-end closings

Bookkeeping Overview

Bookkeeping



1 Introduction



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1.1 Company

Introductory case study

Case 1

Student **Tommy TUMler** is a crazy cyclist. He is not only familiar with many different types of bicycles, he also designs and builds bicycles for his own needs. His talent makes him a sought-after contact with his friends, especially when it comes to repairing their bicycles.

One day he decided that it would be a good idea to make some extra money with the repair of bicycles. To publicize his service, he hangs posters at the university, inserts in local newspapers and spreads its offer in the social networks.

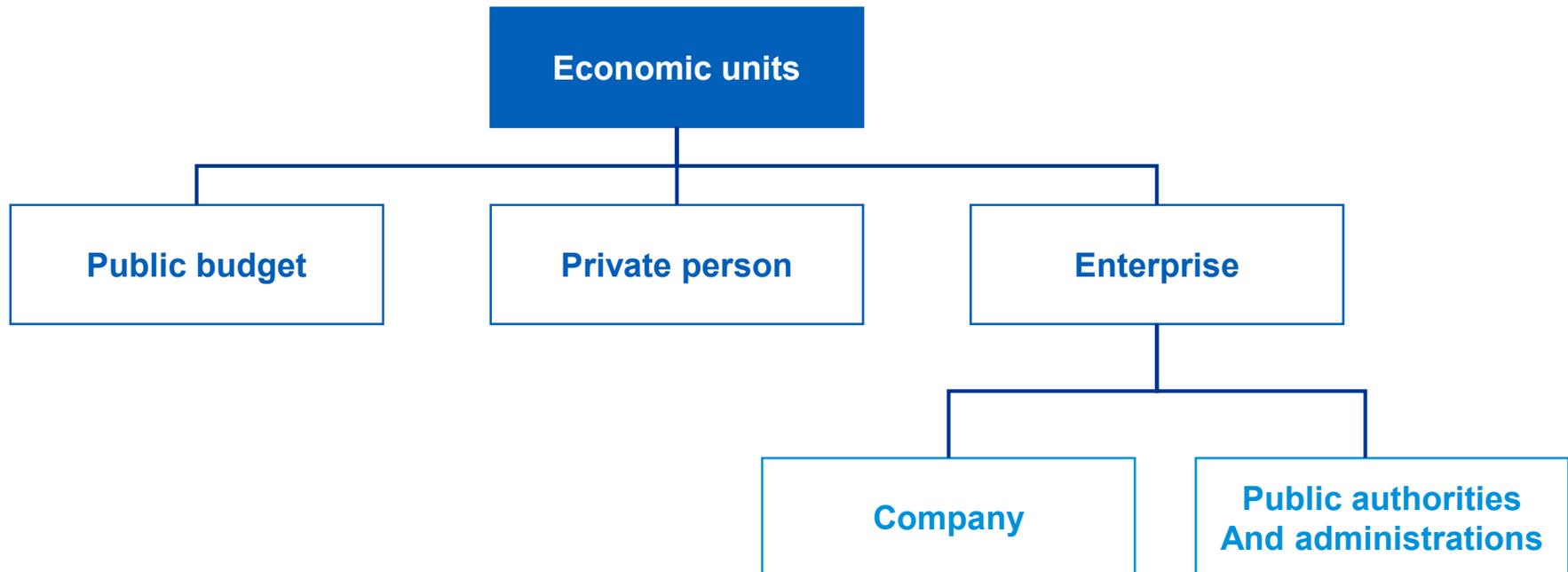
However, it does not take long until he gets mail from the local authorities in Munich, with the request to provide information, whether he runs a company – specifically, what kind of merchant he is.

Question

What is a company?

1.1 Company

Types of Economic units



1.1 Company

Definition „Company“

-
- There is no uniform definition of the term “company” in German law
 - It depends on the purpose of the individual legislation
 - There are two ways to differentiate the term “company”:

Functional term

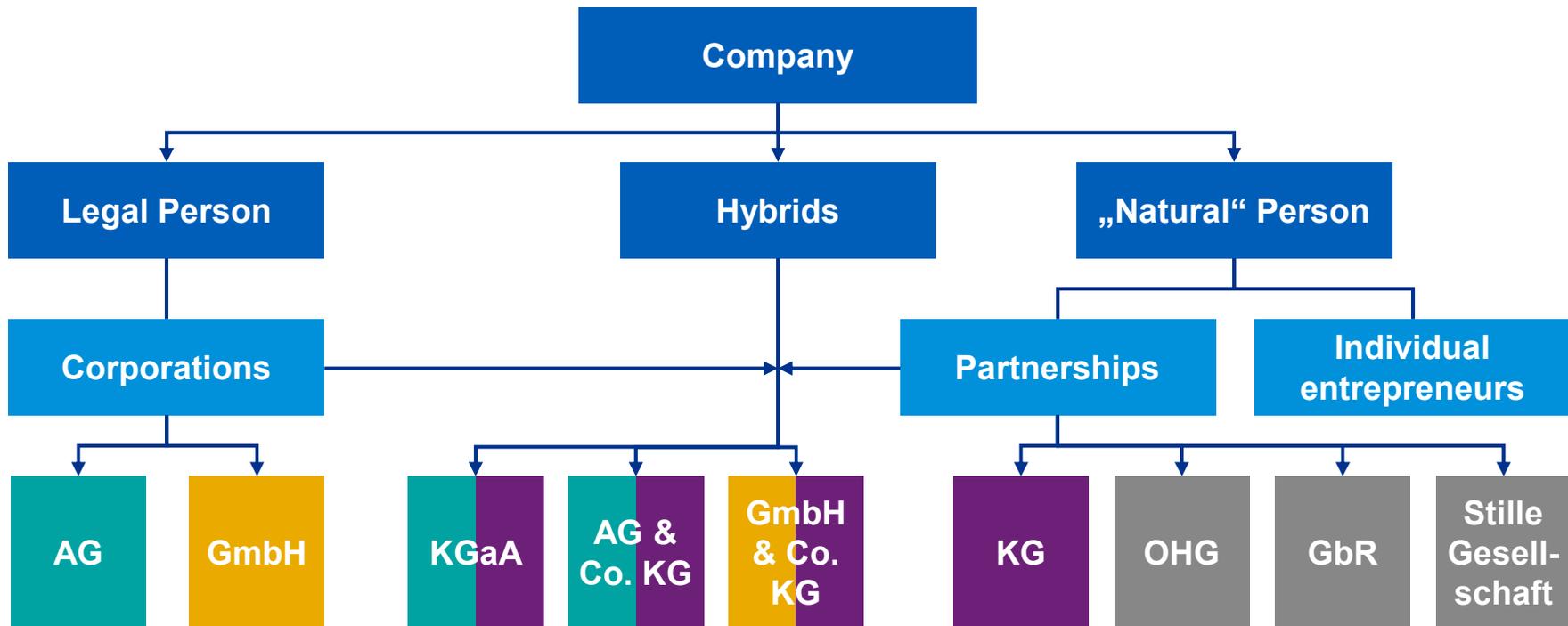
A company is deemed to exist if a legal or natural person is entrepreneurially planning and operating.

Institutional term

The Company requires a commercial activity in the economy and a minimum level of institutional means.

1.1 Company

Typing by companies by legal forms



Note: For law students

Only corporations represent separate (legal) persons from a legal perspective. From an economic point of view every company is a "person", i.e. a separate economic entity, even if it is legally not a separate person.

1.1 Company

Introductory case study



Case 1

Student **Tommy TUMler** is a crazy cyclist. He is not only familiar with many different types of bicycles, he also designs and builds bicycles for his own needs. His talent makes him a sought-after contact with his friends, especially when it comes to repairing their bicycles.

One day he decided that it would be a good idea to make some extra money with the repair of bicycles. To publicize his service, he hangs posters at the university, inserts in local newspapers and spreads its offer in the social networks.

However, it does not take long until he gets mail from the local authorities in Munich, with the request to provide information, whether he runs a company – specifically, what kind of merchant he is.

Question

How many persons do exist in case 1?

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1.2 Merchant

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Case 2

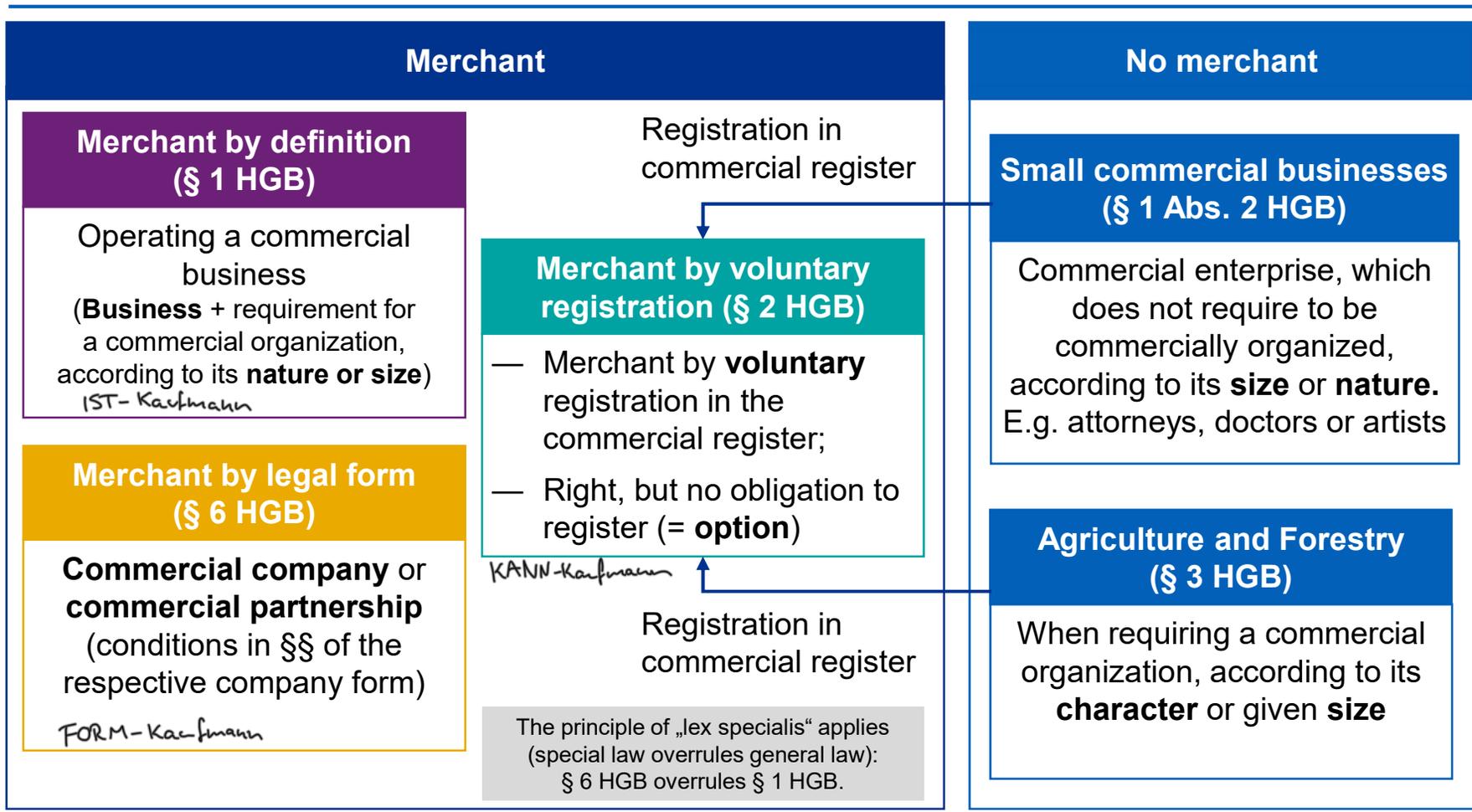
After **Tommy TUMler** came to realize that he probably runs a business in a legal sense, it is not entirely clear for him what the local authorities in Munich intend by asking what kind of merchant he is. He is a mechanical engineering student at the Technical University of Munich and therefore he does not consider himself a merchant. Seeking help, he turns to **Amy Angel**, a fellow student studying TUM-BWL.

Question

What is a merchant and what are the consequences for **Tommy TUMler**?

1.2 Merchant

Classification of commercial merchant types



1.2 Merchant

Introductory case study

Case 2

After **Tommy TUMler** came to realize that he probably runs a business in a legal sense, it is not entirely clear for him what the local authorities in Munich intend by asking what kind of merchant he is. He is a mechanical engineering student at the Technical University of Munich and therefore he does not consider himself a merchant. Seeking help, he turns to **Amy Angel**, a fellow student studying TUM-BWL.

Question

What is a merchant and what are the consequences for **Tommy TUMler**?

Solution (part 1)

Tommy TUMler runs a small commercial business. But because he has big plans and he always wanted to be in the commercial register, he voluntarily registers himself. So, he is a merchant by voluntary registration.

But what are the consequences for **Tommy TUMler** for being a merchant?

1.2 Merchant

Duty to keep books according to § 238 HGB

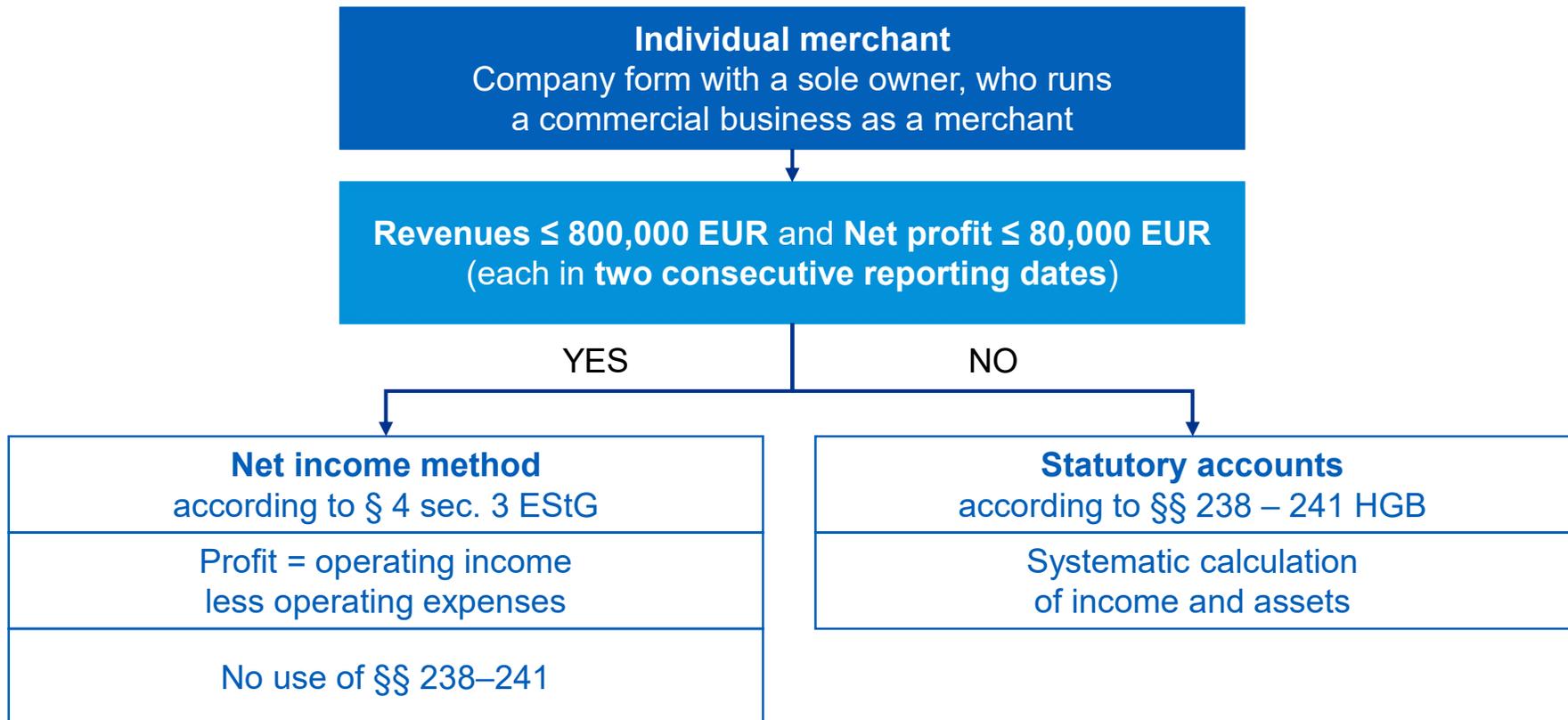
- According to § 238 sec. 1 HGB all merchants are obliged to document their business transactions and their financial position in accordance with generally accepted accounting principles.
- The recording of business transactions is used for profit calculation of entrepreneurial action. It should present the corporation's net assets, financial position and results of operations to the recipients of the annual financial statement.
- The bookkeeping must be designed in a way that an outside expert can get an overview about the transactions and the position of the company within a reasonable period.

§ 238 HGB Duty to keep books

- (1) *Every merchant is obligated to keep books clearly showing his Business transactions and his financial position in accordance with generally accepted accounting principles. The bookkeeping shall be maintained in such a way that an outside expert can derive from it an overview of the business transactions and the position of the enterprise within a reasonable period. It must be possible to track the business transactions from their origin through subsequent settlement.*
- (2) *A merchant is obliged to retain copies of all business correspondence sent out conforming to the original (such as copies, prints, duplicates or other reproductions of the text on a writing surface, photographic or other data storage device).*

1.2 Merchant

Exemption from the duty to keep books according to § 241a HGB



§ 241a HGB does not apply to corporations or partnerships! Those must keep books, if they fulfill the condition of the merchant.

1.2 Merchant

Introductory case study

Solution (part 2)

Although **Tommy TUMler** is a merchant by voluntary registration and is basically obliged to keep books. According to § 241a HGB he would be freed from the obligation to keep books, because he has not crossed the thresholds.

Nevertheless, **Tommy TUMler** wants to have transparency about his business activities from the beginning, so he can work in peace. And since he assumes to „crack“ the sales million and the net profit of 60,000 EUR very soon, he decides to keep books in accordance with §§ 238 ff. HGB.

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1.3 Equity capital vs. Debt capital

Introductory case study



Case 3

After **Tommy TUMler's** grandmother heard about his entrepreneurial activities, she was thrilled and transferred her beloved grandchild 1,000 CU for his birthday as „seed money“ to his bank account for buying necessary tools.

Question

How much money is available for **Tommy TUMler's** company?

1.3 Equity capital vs. Debt capital

Introductory case study

Case 4

Tommy TUMler is happy about his grandmother's gift, but he wants to use the money for his company and not for private purposes.

Question 1

How does the money „get into“ his company?

1.3 Equity capital vs. Debt capital

Introductory case study

Question 2

- How to open a commercial account?
- Who is authorized to open a commercial account?

1.3 Equity capital vs. Debt capital

Introductory case study

Case 5

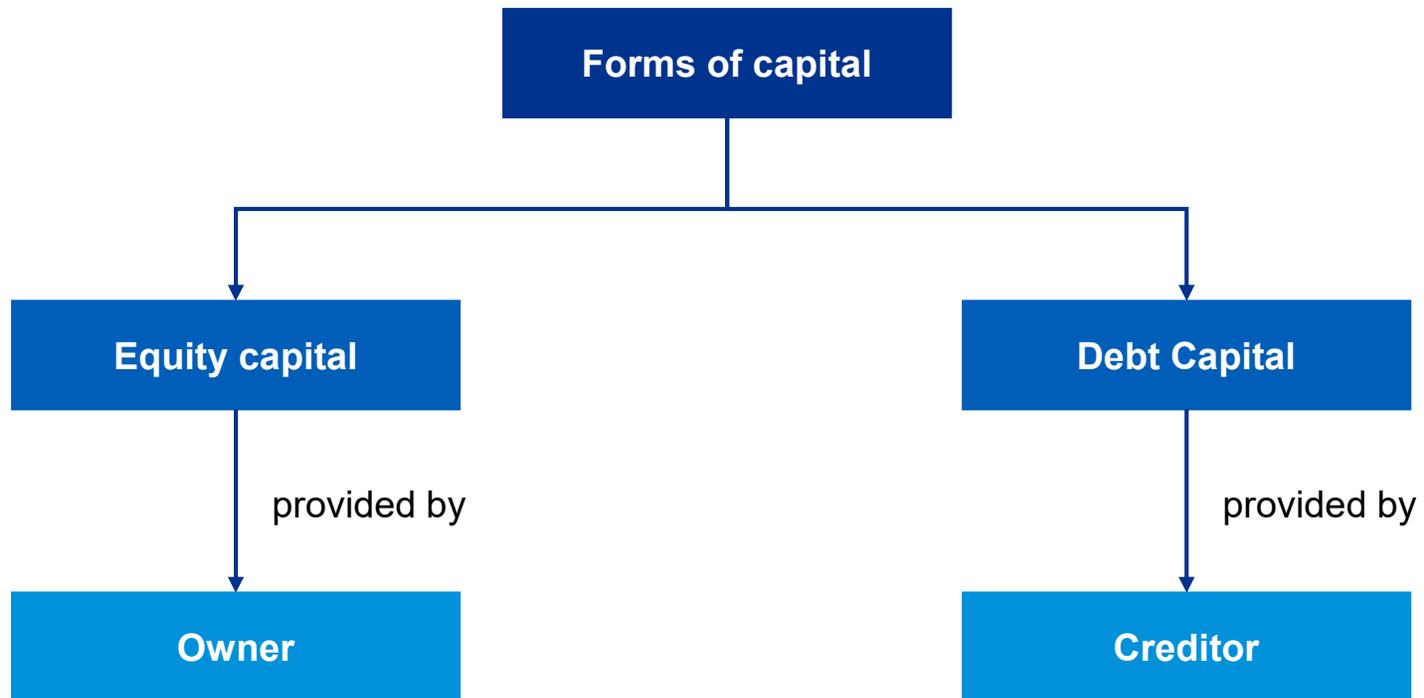
Tommy TUMler learned that he as the **owner** can provide **capital** to his **company**. He is very optimistic about his entrepreneurial future and for him it will soon be necessary to rent rooms and perhaps to buy additional tools to please his customers. But therefore, his equity won't be enough.

Question 1

Which other forms of capital do exist?

1.3 Equity capital vs. Debt capital

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1.4 Assets vs. Liabilities

Private point of view vs. (legal) commercial point of view

Example

A businessman borrows 200,000 EUR from a bank. The bank transfers the money to the commercial account.

Question

Who owns the money?

1.4 Assets vs. Liabilities

Introductory case study

Case 6

Tommy TUMler now knows the difference between **equity capital** and **debt capital**. Since he wants to stay sole owner of his company, he transferred 9,000 CU from his private savings account to his commercial account. He also found some lenders of debt capital in his parents, who have always supported his ideas. They transferred 10,000 CU as „seed capital“ for further investments to the commercial account.

Question

How much capital does **Tommy TUMler's** company have?

How much assets does **Tommy TUMler's** company have?

Note: Assets vs. Liabilities

The company's **capital** means for accounting purposes: debts of the company.

The company's **assets** mean: money and other assets of the company.

The difference arises from the question of who owns the assets, which are dedicated to the company by the creditors and owners.

1.4 Assets vs. Liabilities

Tommy TUMler's first balance sheet

Assets	Company		Capital	
		Equity Capital	10,000	= „debt“ against owner
		capital investment Tommy TUMler 9,000 CU		
		capital investment Tommy TUMler (gift of his grandmother) 1,000 CU		
		Debt Capital	10,000	= „debt“ against creditors
Commercial Account	20,000			

1.4 Assets vs. Liabilities

Tommy TUMler's first balance sheet

Assets (asset-side)	Balance sheet		Liabilities (liabilities-side)
		Equity Capital	10,000
		Debt Capital	10,000
Commercial Account	20,000		
Total assets	20,000	Total liabilities	20,000

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1.5 Fixed assets vs. Current assets

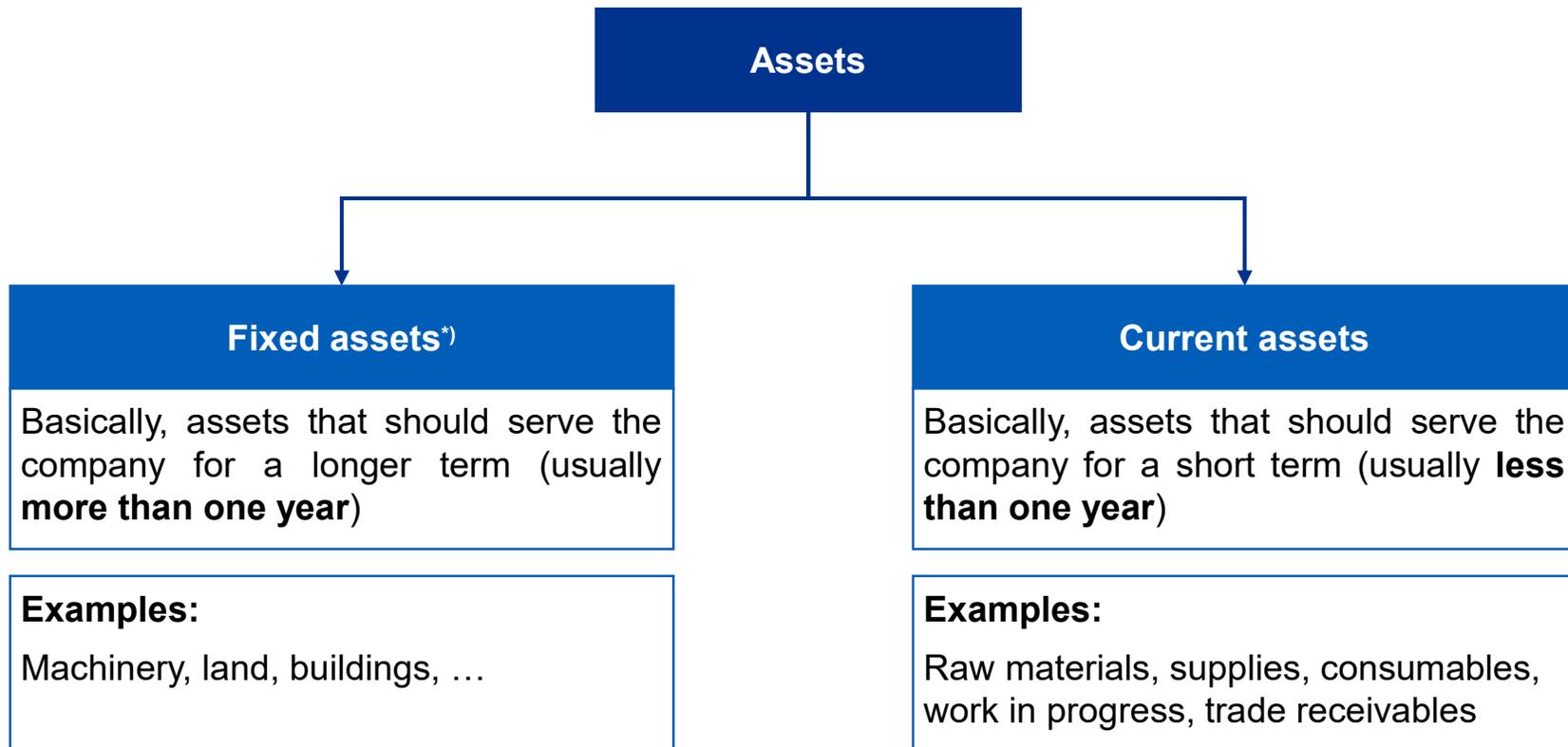
Introductory case study

Case 8

Before he started his commercial activities, **Tommy TUMler** had already purchased various machines and tools that are necessary for the repair of bicycles. He continues with using these machines and tools for his commercial activities. To make no commercial mistakes, he again asks **Amy Angel** for an advice.

1.5 Fixed assets vs. Current assets

Definitions



^{*)} Remember: Fixed assets are a subsite of non-current assets. For didactic and simplification reasons in this module the term fixed asset is used.

1.5 Fixed assets vs. Current assets

Examples for fixed (FA) and current assets (CA)



Make your choice!	CA	FA
a) Office building		X
b) Production machinery		
c) Delivery van		
d) Raw materials		
e) Cash		
f) Commercial bank account		
g) Account for securities > 1 year		

1.5 Fixed assets vs. Current assets

Introductory case study

Question

Assuming the machines have a time value of 3,000 CU and the tools a time value of 1,000 CU. **Amy Angel** gives **Tommy TUMler** the advice to „invest“ those assets into his company as an in-kind investment. He would thereby strengthen his equity. How would the new balance sheet of his company look like?

1.5 Fixed assets vs. Current assets

Introductory case study

Assets	Balance sheet		Liabilities
Fixed assets	4,000	Equity Capital	
		Capital investments	10,000
		In-kind investments	4,000
Current assets		Debt Capital	10,000
Commercial Accounts	20,000		
Total assets	24,000	Total liabilities	24,000

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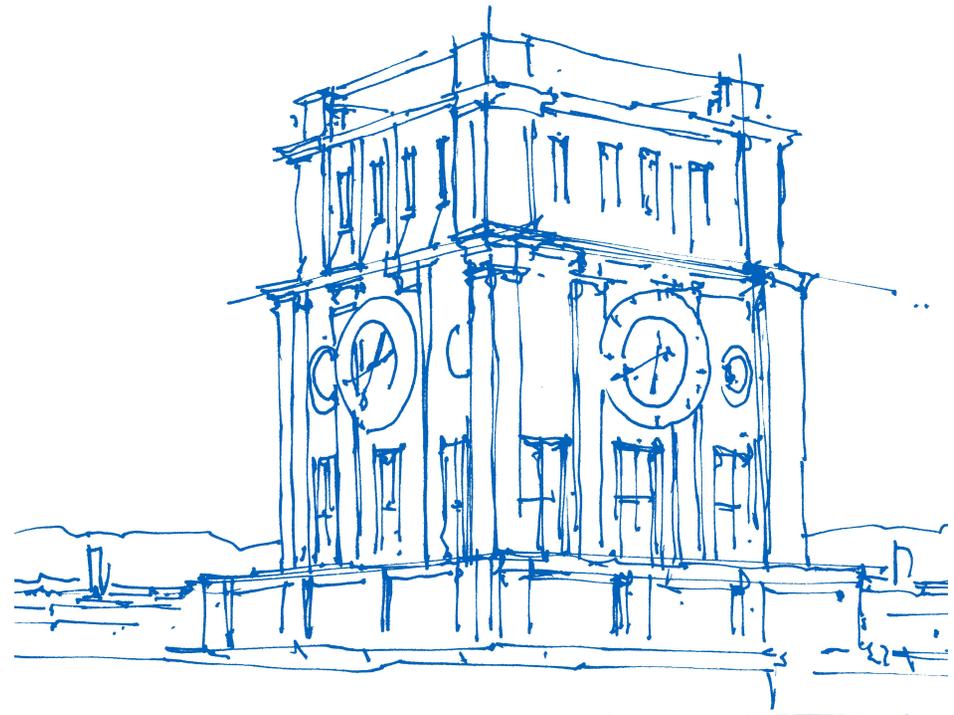
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2 Basic concepts of bookkeeping

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2.1 Business transactions

Introductory case study

Case 9

Tommy TUMler proudly tells his fellow student **Amy Angel** that he has now dutifully registered a trade business. Since he assumes as a success-oriented entrepreneur that the company will grow quickly, he wants to do everything "right" from the beginning and keep books. **Amy Angel** makes him aware that he then has to capture all business transactions. **Tommy TUMler** is insecure and asks her the following questions:

Question

- Does any customer request have to be recorded?
- How does the recruitment of an employee have to be recorded? (signing; assumption: employee will start working in one month)
- How does the capital investment have to be recorded?

2.1 Business transactions

Introductory case study

Assets	Balance sheet		Liabilities
Fixed assets	4,000	Equity Capital	
		Capital investments	10,000
		In-kind investments	4,000
Current assets		Debt Capital	10,000
Commercial Accounts	20,000		
Total	24,000	Total	24,000

- Customers requests are not recorded
- Recruitments are not recorded

2.1 Business transactions

Definition „Business transactions“

- Bookkeeper record **business transactions**.
 - A **business transaction** is an event, which changes the **company's financial situation** (= assets or liabilities).
 - „**Company's financial situation**“ describes the condition of all assets and liabilities of a company.
This includes both the assets and capital.
 - A business transaction has to be expressed in **monetary value (=monetary unit assumption)**.
 - Each business transaction has to be recorded (to be **posted**) without any exception.
 - The business transaction **posting** takes place in the context of the **double-entry bookkeeping**.
 - A business transaction **always** has two impacts from a commercial point of view.
-

2.1 Business transactions

Examples for business transactions (BT)



Make your choice!	BT (yes/no)	Explanation
a) An expert employee resigns	No	Not monetary valuable
b) Owner invests 20,000 EUR into capital		
c) Owner buys a car for his private use.		
d) Bank grants a bank loan		
e) Building is destroyed by a fire		
f) Company sells goods to customers		
g) Insurance pays for the fire damage		
h) Company buys raw material		
i) Positive press report about the company		

2.1 Commercial transaction

Balance sheet of the business transactions

Assets	Balance sheet		Liabilities
Fixed assets		Equity Capital	
Machinery	3,000	Capital investments	10,000
Tools	1,000	In-kind investments	4,000
Current assets		Debt Capital	10,000
(Commercial account)			
Tommy TUMler's capital investment	9,000		
Tommy TUMler's (grandma's) capital investment	1,000		
Parents' loan	10,000		
Total	24,000	Total	24,000

2 Basic concepts of bookkeeping

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2.2 Double-entry bookkeeping

Definition „Bookkeeping“

-
- Bookkeeping is the ongoing, systematically monetary recording (posting) of all business transactions.
 - Bookkeeping is a part of **financial accounting**.
 - **Double-entry bookkeeping**: every business transaction **always** has at least **two** commercial effects. Both effects have to be recorded in the books. There will be always two balance sheet items to be affected by each business transaction.

2.2 Bookkeeping systems

Examples for double-entry bookkeeping



Which balance sheet items are affected?	FA	CA	EC	DC
a) Owner's capital investment via bank transfer				
b) Taking out a new bank loan				
c) Machinery buying on credit				
d) Buying office equipment and paying in cash				
e) Buying raw materials with a 30-day term of payment				
f) Paying the raw materials via bank transfer 30 days later				
g) Cash debt redemption				
h) Cash repayment of part of the equity capital to owners				

Key: + means increasing, - means decreasing, FA = Fixed Assets, CA = Current Assets, EC = Equity Capital, DC = Debt Capital

2.2 Bookkeeping systems

Introductory case study

Case 10

Tommy TUMler is unstoppable. He noted the following business transactions, which he recorded for accounting purposes in the balance sheet with the help of his fellow student **Amy Angel**:

Buying a computer	1,500 CU (via bank transfer)
Grandmother's credit	20,000 CU (via bank transfer)
Capital investment of Tommy TUMler's private money	9,500 CU (cash on hand)
Buying tools on credit	2,000 CU
Buying tools on cash	2,500 CU
Buying a special machinery on credit	8,000 CU

Furthermore, he was able to convince his bank manager **Bruno Banco** of his business model during a talk, so that the bank granted him a loan over 30,000 CU for his founding phase. The bank transferred the money to **Tommy TUMler**'s commercial account.

He also convinced **Amy Angel** of his business model. Since both are of the opinion that the situation does not allow **Amy Angel** to pay an ongoing salary, they decide that she participates with 12,000 CU in the company in the form of a capital investment (in the cash account).

Finally, **Tommy TUMler** requires money privately to repair his car. He pays the bill for the car repair of 3,500 CU from the commercial account.

2.2 Bookkeeping systems

Introductory case study

Assets	Balance sheet		Liabilities
Fixed assets	0	Equity Capital	0
Machinery/Tools	+ 4,000	Capital investment Tommy TUMler (grandmother)	+ 1,000
Computer	+ 1,500	Capital investment Tommy TUMler	+ 9,000
Tools	+ 2,000	In-kind investments Tommy TUMler	+ 4,000
Tools	+ 2,500	Capital investment Tommy TUMler	+ 9,500
Special machinery	+ 8,000	Capital investment Amy Angel	+ 12,000
		Capital withdrawal Tommy TUMler	- 3,500
Current assets	0	Debt Capital	0
Capital investment Tommy TUMler (grandmother)	+ 1,000	Loan (parents)	+ 10,000
Capital investment Tommy TUMler	+ 9,000	Loan (grandmother)	+ 20,000
Loan (parents)	+ 10,000	Tools on credit	+ 2,000
Buying a computer	- 1,500	Special machinery on credit	+ 8,000
Loan (grandmother)	+ 20,000	Loan (bank)	+ 30,000
Capital investment Tommy TUMler	+ 9,500		
Tools in cash	- 2,500		
Loan (bank)	+ 30,000		
Capital investment Amy Angel	+ 12,000		
Car repair	- 3,500		
Total	102,000	Total	102,000

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T-account

The term
“account”

Account types

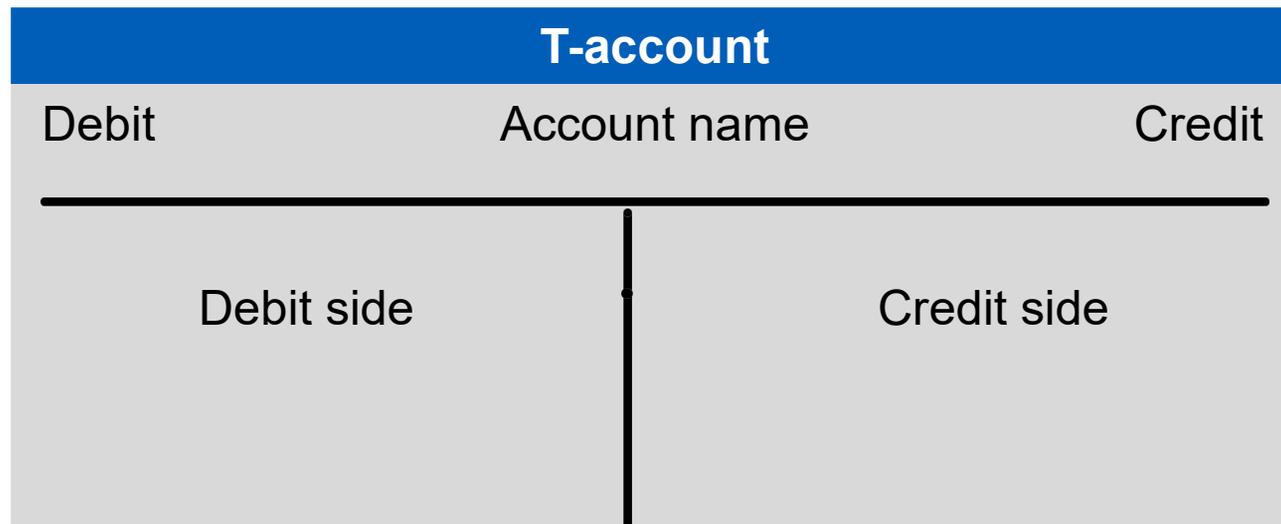
Account balance

Chart of accounts

2.3 T-account

The term „account“

- A T-account is a two-page statement, which contains—depending on your account—on the one hand, the **opening balances** (OB) and **additions**, on the other side the reductions and the **closing balance** (CB).
- The closing balance is the difference (**balance**) between the sum of opening balances plus additions on one hand minus the **reductions** on the other hand.



2.3 T-account

Introductory case study

Assets	Balance sheet		Liabilities
Fixed assets	0	Equity Capital	0
Machinery/Tools	+ 4,000	Capital investment Tommy TUMler (grandmother)	+ 1,000
Computer	+ 1,500	Capital investment Tommy TUMler	+ 9,000
Tools	+ 2,000	In-kind investments Tommy TUMler	+ 4,000
Tools	+ 2,500	Capital investment Tommy TUMler	+ 9,500
Special machinery	+ 8,000	Capital investment Amy Angel	+ 12,000
		Capital withdrawal Tommy TUMler	- 3,500
Current assets	0	Debt Capital	0
Capital investment Tommy TUMler (grandmother)	+ 1,000	Loan (parents)	+ 10,000
Capital investment Tommy TUMler	+ 9,000	Loan (grandmother)	+ 20,000
Loan (parents)	+ 10,000	Tools on credit	+ 2,000
Buying a computer	- 1,500	Special machinery on credit	+ 8,000
Loan (grandmother)	+ 20,000	Loan (bank)	+ 30,000
Capital investment Tommy TUMler	+ 9,500		
Tools in cash	- 2,500		
Loan (bank)	+ 30,000		
Capital investment Amy Angel	+ 12,000		
Car repair	- 3,500		
Total	102,000	Total	102,000

2.3 T-account

Introductory case study

Assets	Balance sheet		Liabilities
Fixed assets	18,000	Equity Capital	32,000
Current assets	84,000	Debt Capital	70,000
Total	102.000	Total	102.000

2.3 T-account

The structure and content of an account

Debit ②		① Equity Capital	② Credit	
			③ OB	0
④ 13.(654)	⑤ 3,500	④ 1.(652)	1,000	
③ CB (balance)	⑤ 32,000	④ 2.(652)	9,000	
		④ 3.(750)	4,000	
		④ 7.(654)	9,500	
		④ 12.(654)	12,000	
			⑥ 35,500	
	<u>35,500</u>			

2.3 T-account

The structure and content of an account



1 Account number, Account name

The account number and the account name (here: "Equity capital") are taken from an account list (chart of accounts).

2 Account sides

These are referred to as "Debit" and "Loan".

3 Account balances

The opening balance (marked "OB") is taken from the opening balance, closing balance ("CB") is transferred to the closing balance sheet

4 Account changes

The recorded additions and reductions on one account have to be specified in each case with the transaction number (e.g. „1“, „2“, „3“) and the relevant contra account(s) (e.g. „652“, „654“, „750“).

5 Account balance

At the completion of an account, the debit and the credit side must be balanced. This is achieved by summing up the two sides of the accounts before determining the closing balance and then subtracting the lower of the higher side (here: credit sum [35,500] minus debit sum [3,500] = balance [32,000]). This balance is then inserted on the account's side with the lower sum and constitutes the closing balance.

2.3 T-account

The structure and content of an account



The screenshot shows a T-account with a debit side on the left and a credit side on the right. The debit side has several entries, and the credit side has several entries. A total line is drawn at the bottom of each side, and the total amount (35,500) is registered on both sides. The total is underlined by double final strokes.

6 Account sum

The "Text-final strokes" are each drawn to the debit and credit side of the last record. Below the lowest booking a "total line" is drawn respectively. The blank lines on the accounts side with the lower number of bookings will be filled by the "**accountant nose**". Thereafter, on both sides the accounts sum (here: 35,500) is registered. The totals are underlined by double final strokes (total strokes).

Further account information

In practice, usually a number of other details are listed in the accounts, such as Accounts head address of the customer, credit marks etc., in business transactions: Document number, posting text, posting date.

2.3 T-account

Introductory case study

Assets		Balance sheet		Liabilities	
Debit	Fixed Assets	Credit	Debit	Equity Capital	Credit
	+ 4,000		- 3,500	+ 1,000	
	+ 1,500			+ 9,000	
	+ 2,000			+ 4,000	
	+ 2,500			+ 9,500	
	+ 8,000			+ 12,000	
Debit	Current Assets	Credit	Debit	Debt Capital	Credit
	+ 1,000	- 1,500		+ 10,000	
	+ 9,000	- 2,500		+ 20,000	
	+ 10,000	- 3,500		+ 2,000	
	+ 20,000			+ 8,000	
	+ 9,500			+ 30,000	
	+ 30,000				
	+ 12,000				
Total		102,000	Total		102,000

2.3 T-account

Learning rule

Assets		Balance sheet		Liabilities	
Debit	Fixed Assets	Credit	Debit	Equity Capital	Credit
+ increase	- decrease		- decrease	+ increase	
Debit	Current Assets	Credit	Debit	Debt Capital	Credit
+ increase	- decrease		- decrease	+ increase	

2.3 T-account

Learning rule in words

1. Asset-side accounts increase (decrease) on the left (right)
Liabilities-side accounts increase (decrease) on the right (left)
2. Easier to remember with the graphics:
 - Accounts increase OUTSIDE
 - Accounts decrease INSIDE

2.3 T-account

Introductory case study

Assets		Balance sheet		Liabilities	
Debit	Fixed Assets	Credit	Debit	Equity Capital	Credit
	+ 4,000		- 3,500	+ 1,000	
	+ 1,500			+ 9,000	
	+ 2,000			+ 4,000	
	+ 2,500			+ 9,500	
	+ 8,000			+ 12,000	
Debit	Current Assets	Credit	Debit	Debt Capital	Credit
	+ 1,000	- 1,500		+ 10,000	
	+ 9,000	- 2,500		+ 20,000	
	+ 10,000	- 3,500		+ 2,000	
	+ 20,000			+ 8,000	
	+ 9,500			+ 30,000	
	+ 30,000				
	+ 12,000				
Total		102,000	Total		102,000

2.3 T-account

Introductory case study

Assets			Balance sheet		Liabilities	
Debit	Fixed Assets	Credit	Debit	Equity Capital	Credit	
	4,000			3,500	1,000	
	1,500				9,000	
	2,000				4,000	
	2,500				9,500	
	8,000				12,000	
Debit	Current Assets	Credit	Debit	Debt Capital	Credit	
	1,000	1,500			10,000	
	9,000	2,500			20,000	
	10,000	3,500			2,000	
	20,000				8,000	
	9,500				30,000	
	30,000					
	12,000					
Total		102,000	Total		102,000	

Basic concepts of bookkeeping

3

T-account

The term
“account”

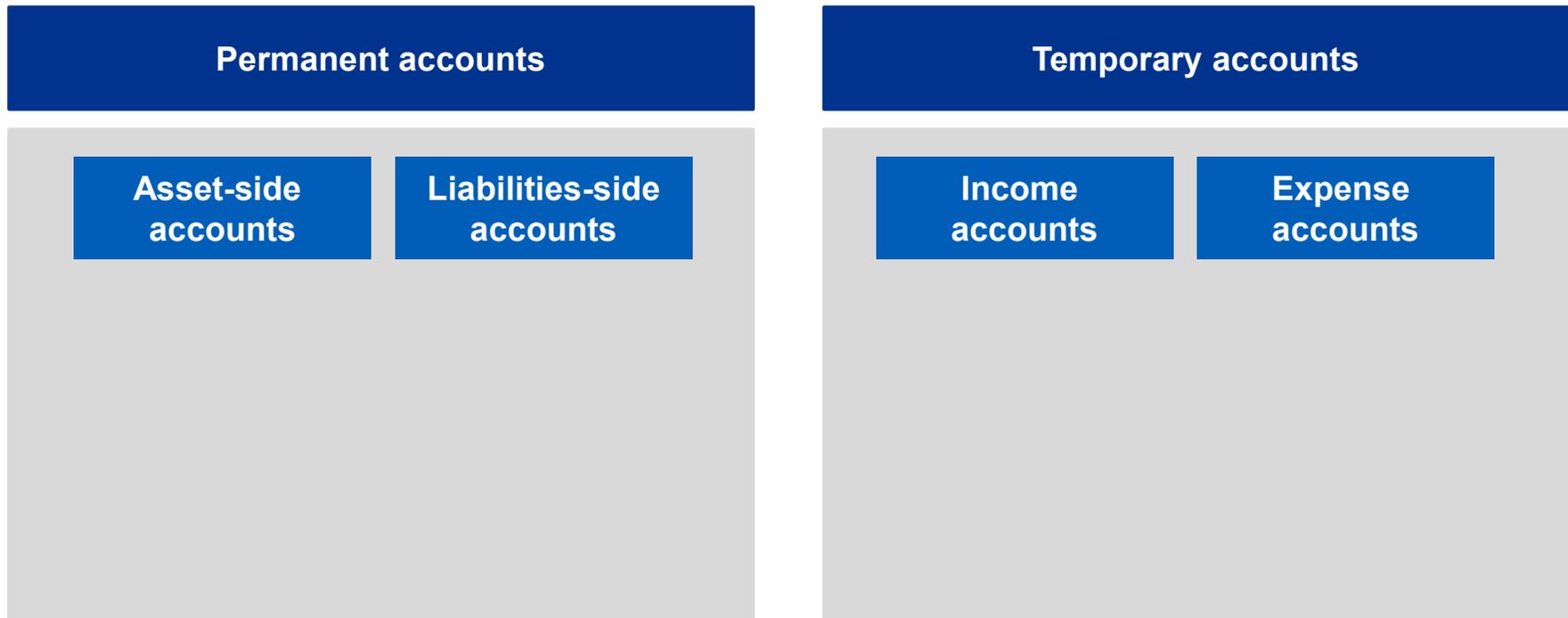
Account types

Account balance

Chart of accounts

2.3 T-account

Permanent accounts and temporary accounts



2.3 T-account

Permanent accounts

- **Permanent accounts** are all accounts that are on the company's balance sheet. Each item in the balance sheet is associated with its own permanent account.

Asset-side accounts		
Debit	Account name	Credit
OB		Subtractions
Additions		Debit balance

Liabilities-side accounts		
Debit	Account name	Credit
Subtractions		OB
Credit balance		Additions

- **Please note:**
Permanent accounts only show the value of assets, not how many of each item you have (i.e. quantities)!

2.3 T-account

Temporary accounts

- Only business transactions effecting the company's net income are recorded on **temporary accounts**. They „collect“– separately for different types of income and expenses – all income and expenses of a reporting period.

Income accounts		
Debit	Account name	Credit
Balance		Income

Expense accounts		
Debit	Account name	Credit
Expenses		Balance

2 Basic concepts of bookkeeping

Overview

Basic concepts of bookkeeping

3

T-account

The term
“account”

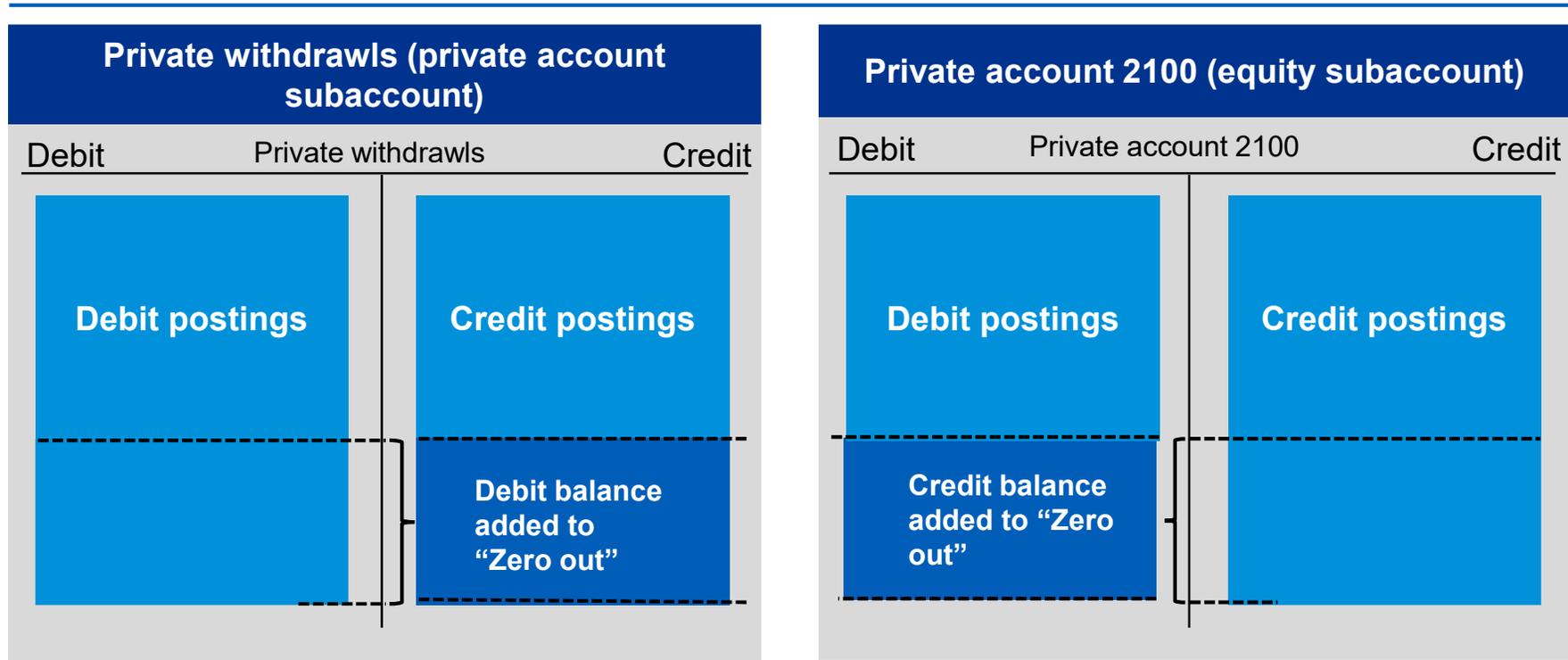
Account types

Account balance

Chart of accounts

2.3 T-account

How to close temporary accounts



Note: To close temporary accounts, you add the debit balance on the credit side or the credit balance on the debit side, thereby **balancing the account**. This process is called **zeroing out**. The debit or credit balance is thereafter **added to the respective non temporary account**.

2.3 T-account

Introductory case study

AssetsH			Balance sheet		Liabilities	
Debit	Fixed Assets	Credit	Debit	Equity Capital	Credit	
	4,000	Debit balance 18,000		3,500	1,000	
	1,500			Credit balance 32,000	9,000	
	2,000				4,000	
	2,500				9,500	
	8,000				12,000	
Debit	Current Assets	Credit	Debit	Debt Capital	Credit	
	1,000	1,500	Credit balance 70,000	10,000		
	9,000	2,500		20,000		
	10,000	3,500		2,000		
	20,000	Debit balance 84,000		8,000		
	9,500			30,000	30,000	
	30,000					
	12,000					

Note: The calculated balance is **not** part of the T-account, but stands separately. It is not a posting or anything.

Basic concepts of bookkeeping

3

T-account

The term
“account”

Account types

Account balance

Chart of accounts

2.3 T-account

Chart of accounts

- **Systematic register** of all accounts for bookkeeping for certain industries
- Recommendation for the development of an own industry specific chart of accounts
- **Hierarchical construction:**
 - Accounts classes, e.g., Fixed Assets, Financial accounts, Inventory
 - Accounts groups, e.g., Real estate, Buildings, Technical equipment, Machinery, ...
 - Accounts, e.g., Administration building, Production hall, Warehouse, ...

Examples

Common chart of accounts

- Subdivision into ten accounts classes (0-9)
- The structure follows the process organizational principle
- The sequence of accounts should correspond to the business process.

Industrial chart of accounts

- Subdivision into ten accounts classes (0-9)
- The structure follows the completion of organizational principle (balance sheet and income statement)
- Dual purpose system:
 - Purpose I: Financial accounting, External accounting
 - Purpose II: Cost accounting, Internal accounting

2.3 T-account

Introductory case study

Assets			Balance sheet		Liabilities		
Debit	Fixed Assets (FA)	Credit	Debit	Equity Capital (EC)	Credit		
	4,000	Debit balance 18,000		3,500	1,000		
	1,500		Credit balance 32,000		9,000		
	2,000				4,000		
	2,500				9,500		
	8,000				12,000		
Debit	Current Assets (CA)	Credit	Debit	Debt Capital (DC)	Credit		
	1,000	1,500	Credit balance 70,000		10,000		
	9,000	2,500			20,000		
	10,000	3,500			2,000		
	20,000	Debit balance 84,000			8,000		
	9,500				30,000		
	30,000						
	12,000						
Total		102,000	Total		102,000		

2.3 T-account

Theory vs. Reality

-
- In reality, there are no accounts like “fixed assets”, “current assets”, “equity capital” or “debt capital”.
 - This is a simplification for educational purposes.
 - In reality, these accounts are umbrella terms for hundreds of **individual accounts** such as:
 - FA: land, building, machinery ...
 - CA: inventories, receivables, cash on hand ...
 - EC: subscribed capital, capital reserve, retained earnings ...
 - DC: liabilities, provisions ...
 - But: Each business transaction can be traced back to these four balance sheet items - regardless of how the individual account is named.

2.3 T-account

Balance sheet split (Introductory case study)

Assets		Balance sheet		Liabilities	
Debit	Machinery (FA)	Credit	Debit	Eqity Capital	Credit
	+ 3,000		- 3,500	+ 1,000	
	+ 1,500			+ 9,000	
	+ 8,000			+ 4,000	
				+ 9,500	
				+ 12,000	
Debit	Tools (FA)	Credit			
	+ 1,000				
	+ 2,000				
	+ 2,500				
Debit	Bank (CA)	Credit	Debit	Payables (DC)	Credit
	+ 1,000	- 1,500		+ 2,000	
	+ 9,000	- 3,500		+ 8,000	
	+ 10,000				
	+ 20,000				
	+ 30,000				
Debit	Cash on hand (CA)	Credit	Debit	Loans (DC)	Credit
	+ 9,500	- 2,500		+ 10,000	
	+ 12,000			+ 20,000	
				+ 30,000	

2.3 T-account

Balance sheet split (Introductory case study)

Assets			Balance sheet		Liabilities		
Debit	Machinery (FA)	Credit	Debit	Eqity Capital	Credit		
	3,000	Debit balance: 12,500		3,500	1,000		
	1,500		Credit balance: 32,000		9,000		
	8,000				4,000		
Debit	Tools (FA)	Credit			9,500		
	1,000	Debit balance: 5,500			12,000		
	2,000						
	2,500						
Debit	Bank (CA)	Credit	Debit	Payables (DC)	Credit		
	1,000	1,500	Credit balance: 10,000		2,000		
	9,000	3,500			8,000		
	10,000	Debit balance: 65,000					
	20,000						
	30,000		Debit	Loans (DC)	Credit		
Debit	Cash on hand (CA)	Credit	Credit balance: 60,000		10,000		
	9,500	2,500			20,000		
	12,000	Debit balance: 19,000			30,000		

2 Basic concepts of bookkeeping

Overview

Basic concepts of bookkeeping

1 **Business transactions**

6 **Equity Capital account
and its sub-accounts**

2 **Bookkeeping systems**

7 **Stocktaking and Inventory**

3 **T-account**

4 **Vouchers and Journal entry**

Summary Overview

5 **Income/Profit and Loss**

MC-Questions

Basic concepts of bookkeeping

4

Vouchers and Journal entry

Journal entry

Vouchers

From business
transaction to
Journal entry

2.4 Vouchers and Journal entry

Definition „Journal entry“

Logic of posting business transactions

- Journal entries are instructions to which T-accounts a business transaction (and the amount) has to be posted
- Postings are made in form of a journal entry:
DEBIT to CREDIT
- The journal entry contains:
 - the accounts affected,
 - the amount,
 - an explanatory posting text.

Types of journal entries

- **Simple journal entries**
 - A business transaction deals with exactly two accounts
 - Example: A new bank loan over 1,750
 - Dr. Cash in bank 1,750/Cr. Bank loan 1,750
- **Composite journal entries**
 - A business transaction deals with more than two accounts
 - Example: Selling current assets securities (book value 500) for 700
 - Bank 700 to Securities 500
Other Income 200

2.4 Vouchers and Journal entry

Case: Journal entry

Without Journal entry (capital investment Tommy TUMler)

“Please post to the “Current asset” T-account’s left side the amount of 1,000 CU and to the “equity capital” T-account’s right side the amount of 1,000 CU each.”

Journal entry (= the language of bookkeepers)

Debit	/	Credit	Amount
Current assets	/	Equity capital	1,000 CU

Basic concepts of bookkeeping

4

Vouchers and Journal entry

Journal entry

Vouchers

From business
transaction to
Journal entry

2.4 Vouchers and Journal entry

Definition „Vouchers“

- Document, containing information about business transactions to be recorded and thus can be used as proof of the correctness of the information concerning the relevant business transaction.
- A document is a **certificate** and a **proof** that a change in the financial situation has in fact occurred.
- **No posting without a voucher!**
- A voucher serves as a link between business transaction and posting and is numbered consecutively.
- Vouchers are divided in internal and external documents.

2.4 Vouchers and Journal entry

Types of vouchers: internal vs. external

Internal vouchers (own document)

Examples:

- Outgoing invoices
- Receipts
- Business letters
- Payrolls
- Material withdrawal slips
- Documents for cancellations

External vouchers (third party`s document)

Examples:

- Incoming invoices
- Receipts
- Bank statements
- Business letters

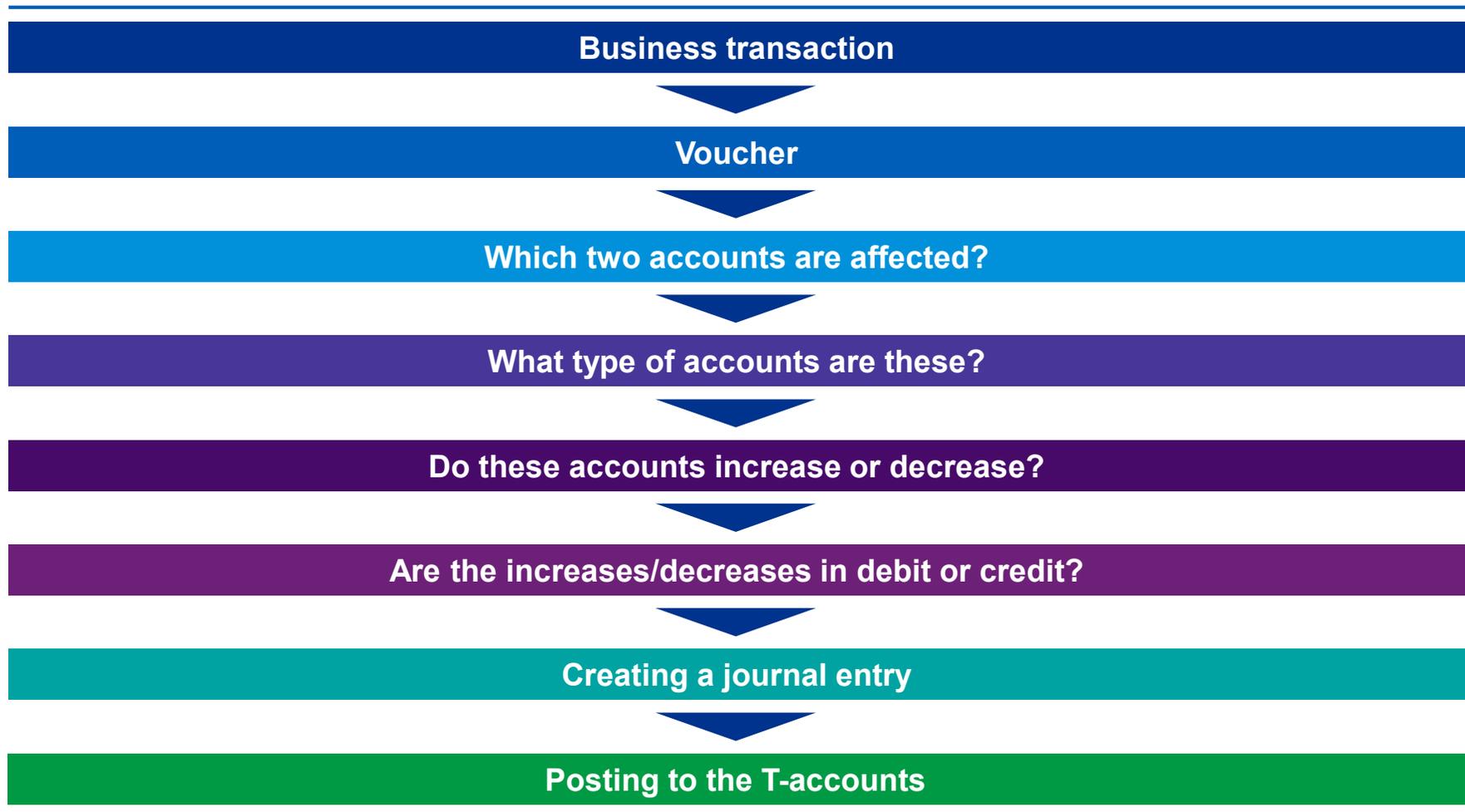
- Document serves as a link between business transaction and posting :
- Each journal entry has to be documented with a voucher for traceability reasons, § 257 Abs.1 No. 4 HGB

Vouchers from internal operations

Vouchers from third-party relationships

2.4 Vouchers and Journal entry

From business transaction to journal entry



2.4 Vouchers and Journal entry

From business transaction to journal entry

Business transaction

Voucher

Which two accounts are affected?

- Are two or more accounts affected?
- Does the business transaction affect the company's income?

What type of accounts are these?

Do these accounts increase or decrease?

Are the increases/decreases in debit or credit?

Creating an Journal entry

Posting to the T-accounts

2.4 Vouchers and Journal entry

From business transaction to journal entry

Business transaction

Voucher

Which two accounts are affected?

What type of accounts are these?

- Are asset-side or liabilities-side accounts affected?
- Are there income or expenses to record?

Do these accounts increase or decrease?

Are the increases/decreases in debit or credit?

Creating an Journal entry

Posting to the T-accounts

2.4 Vouchers and Journal entry

From business transaction to journal entry

Business transaction

Voucher

Which two accounts are affected?

What type of accounts are these?

Do these accounts increase or decrease?

- Does the company's equity capital or its debt capital increase?
- Is there a income or an expense or a correction to record?

Are the increases/decreases in debit or credit?

Creating an Journal entry

Posting to the T-accounts

2.4 Vouchers and Journal entry

From business transaction to journal entry

Business transaction

Voucher

Which two accounts are affected?

What type of accounts are these?

Do these accounts increase or decrease?

Are the increases/decreases in debit or credit?

- Asset-side accounts: increase DEBIT, decrease CREDIT
- Liabilities-side accounts: increase CREDIT, decrease DEBIT
- Expense account: increase DEBIT, decrease CREDIT
- Income account: increase CREDIT, decrease DEBIT

Creating an Journal entry

Posting to the T-accounts

2.4 Vouchers and Journal entry

From business transaction to journal entry

Business transaction

Voucher

Which two accounts are affected?

What type of accounts are these?

Do these accounts increase or decrease?

Are the increases/decreases in debit or credit?

Creating an Journal entry

— Structure: „DEBIT xx/CREDIT yy “

Posting to the T-accounts

2 Basic concepts of bookkeeping

Overview

Basic concepts of bookkeeping

1 **Business transactions**

6 **Equity Capital account
and its sub-accounts**

2 **Bookkeeping systems**

7 **Stocktaking and Inventory**

3 **T-account**

4 **Vouchers and Journal entry**

Summary Overview

5 **Income/Profit and Loss**

MC-Questions

2.3 T-account

Introductory case study

Wrap up

Assets	Balance sheet		Liabilities
Fixed assets	0	Equity Capital	0
Machinery/Tools	+ 4,000	Capital investment Tommy TUMler (grandmother)	+ 1,000
Computer	+ 1,500	Capital investment Tommy TUMler	+ 9,000
Tools	+ 2,000	In-kind investments Tommy TUMler	+ 4,000
Tools	+ 2,500	Capital investment Tommy TUMler	+ 9,500
Special machinery	+ 8,000	Capital investment Amy Angel	+ 12,000
		Capital withdrawal Tommy TUMler	- 3,500
Current assets	0	Debt Capital	0
Capital investment Tommy TUMler (grandmother)	+ 1,000	Loan (parents)	+ 10,000
Capital investment Tommy TUMler	+ 9,000	Loan (grandmother)	+ 20,000
Loan (parents)	+ 10,000	Tools on credit	+ 2,000
Buying a computer	- 1,500	Special machinery on credit	+ 8,000
Loan (grandmother)	+ 20,000	Loan (bank)	+ 30,000
Capital investment Tommy TUMler	+ 9,500		
Tools in cash	- 2,500		
Loan (bank)	+ 30,000		
Capital investment Amy Angel	+ 12,000		
Car repair	- 3,500		
Total	102,000	Total	102,000

2.3 T-account

Balance sheet split (Introductory case study)

Wrap up

Assets			Balance sheet		Liabilities		
Debit	Machinery (FA)	Credit	Debit	Eqity Capital	Credit		
	3,000	Debit balance: 12,500		3,500	1,000		
	1,500		Credit balance: 32,000		9,000		
	8,000				4,000		
					9,500		
					12,000		
Debit	Tools (FA)	Credit					
	1,000	Debit balance: 5,500					
	2,000						
	2,500						
Debit	Bank (CA)	Credit	Debit	Payables (DC)	Credit		
	1,000	1,500	Credit balance: 10,000		2,000		
	9,000	3,500			8,000		
	10,000	Debit balance: 65,000					
	20,000						
	30,000		Debit	Loans (DC)	Credit		
Debit	Cash on hand (CA)	Credit	Credit balance: 60,000		10,000		
	9,500	2,500			20,000		
	12,000	Debit balance: 19,000			30,000		

2.5 Income/Profit and Loss

Introductory case study

Wrap up

Assets			Balance sheet		Liabilities	
Debit	Fixed Assets	Credit	Debit	Equity Capital	Credit	
	(OB) 18,000				(OB) 32,000	
Debit	Current Assets	Credit	Debit	Debt Capital	Credit	
	(OB) 84,000				(OB) 70,000	

2.5 Income/Profit and Loss

Introductory case study

Case 11

Tommy TUMler buys some furniture for his office for 6,000 CU in cash from one of his friends.

Finally, **Tommy TUMler** pays the fee for his company's registration (500 CU) via bank transfer.

Furthermore, he must pay the rent for his shop and the office (800 CU) via bank transfer.

The public utility company sends the first invoice for electricity (100 CU), payable in one month.

The bank charges interest for the first month of **Tommy TUMler's** bank loan (125 CU).

Fortunately, **Tommy TUMler** had his first customer order and received 200 CU in cash.

2.5 Income/Profit and Loss

Introductory case study

Assets			Balance sheet		Liabilities	
Debit	Fixed Assets	Credit	Debit	Equity Capital	Credit	
	(OB) 18,000			500	(OB) 32,000	
	6,000			800	200	
				100		
				125		
Debit	Current Assets	Credit	Debit	Debt Capital	Credit	
	(OB) 84,000	6,000			(OB) 70,000	
	200	500			100	
		800				
		125				

2.5 Income/Profit and Loss

Definition "Income and expenses"

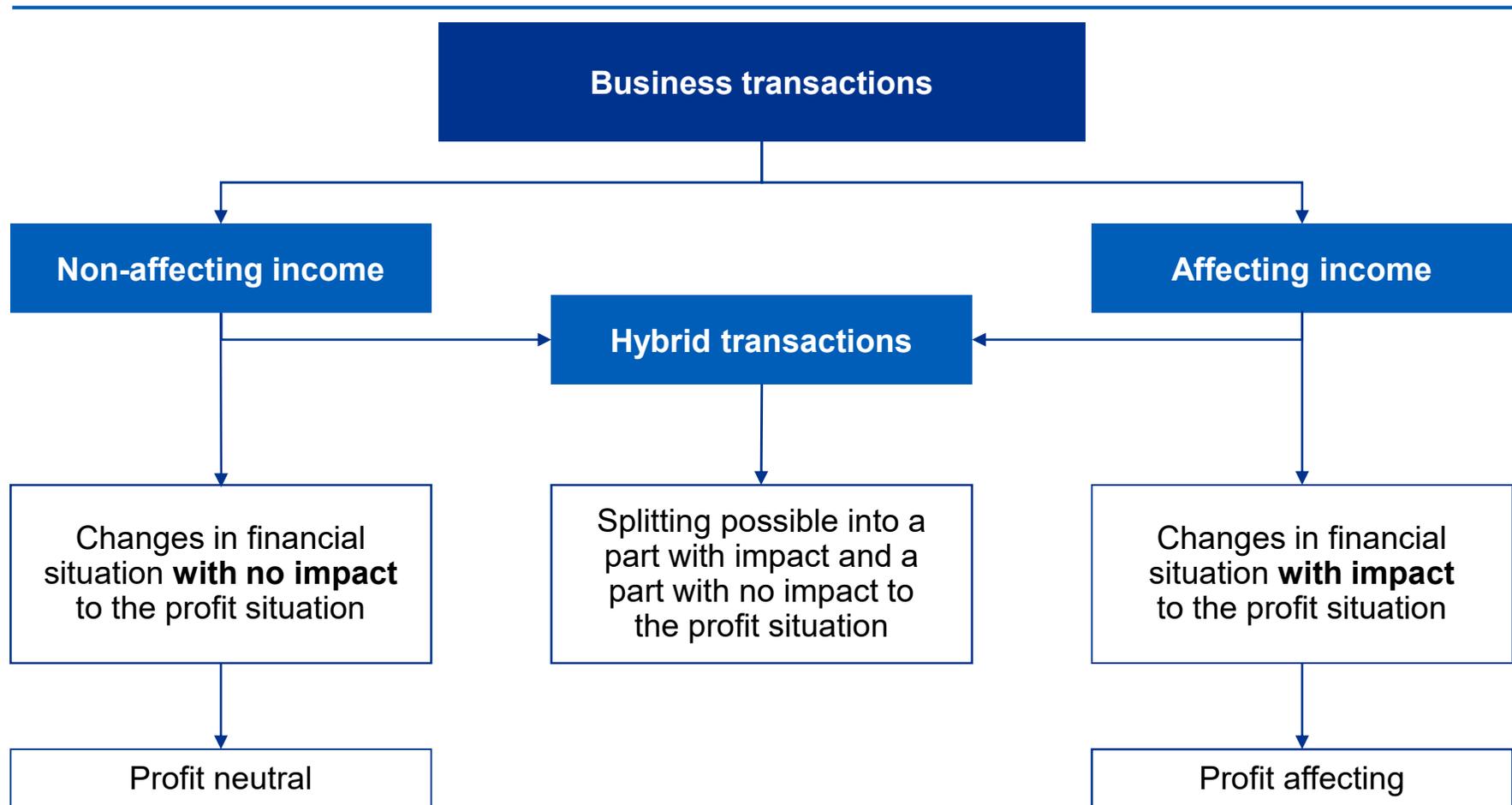
-
- **Expenses** refer in a commercial context to a business transaction in which a loss in value has occurred, which the owners have to bear. But that does not necessarily mean that a cash outflow has occurred (e.g., depreciation).
 - **Decrease in Equity capital**

 - **Income** refers in a commercial context to a business transaction in which a gain in value has occurred, which increases the owners' equity capital. But that does not necessarily mean that a cash inflow has occurred (e.g., reversal of an impairment).
 - **Increase in Equity capital**

 - Income and expenses are income-affecting business transactions which mean an individual gain or loss of value and so effect the company's **total** profit or loss (**Income** = umbrella term for profit or loss)
 - **The company's income affects the Equity Capital**
-

2.5 Income/Profit and Loss

Non-affecting income vs. affecting income



2.5 Income/Profit and Loss

Overview

Profit neutral changes in financial situation

Assets swap

Liabilities swap

Balance extension

Balance shortening

2.5 Income/Profit and Loss

Context of transaction and balance sheet structure

	Changes in assets structure	Changes in liabilities structure
Constant total sum	Assets swap	Liabilities swap
Changing total sum	Balance extension	
	Balance shortening	

2.5 Income/Profit and Loss

Context of transaction and balance sheet structure

	No change in total sum		Change in total sum	
	Assets swap Changes in assets structure	Liabilities swap Changes in capital structure	Balance extension Increase on both sides of the balance sheet	Balance shortening Decrease on both sides of the balance sheet
Profit neutral balance change (no change in equity through gains or losses in value; changes in equity only in capital transactions with owners)	e.g. Buying Current Assets on cash	e.g. Conversion of current liabilities into non-current liabilities Repayment of debt with additional equity	e.g. Buying a machinery on credit	e.g. Repayment of liabilities from Commercial Accounts
Profit affecting balance change (change in equity through gains or losses in values)		e.g. Increase of provisions	e.g. Receipt of rentals	e.g. Consumption of material

2.5 Income/Profit and Loss

Assets swap

Assets swap

- The increase in at least one assets-side account corresponds with the decrease in at least one other assets-side account
- Change in assets structure
- No change in Total sum

Status quo

Debit	Balance sheet from 31.12.XX		Credit
Fixed assets	8,000	Equity capital	5,000
Current assets	12,000	Debt capital	15,000
Total	20,000	Total	20,000

2.5 Income/Profit and Loss

Assets swap

Assets swap

- The increase in at least one assets-side account corresponds with the decrease in at least one other assets-side account
- Change in assets structure
- No change in Total sum

Example: Buying a new machinery for 1,500 CU in cash

Debit	Balance sheet from 31.12.XX		Credit
Fixed assets	9,500	Equity capital	5,000
Technical equipment	1,500		
Current assets	10,500	Debt capital	15,000
Cash in banks	-1,500		
Total	20,000	Total	20,000

2.5 Income/Profit and Loss

Liabilities swap

Assets swap

- The increase in at least one assets-side account corresponds with the decrease in at least one other assets-side account
- Change in assets structure
- No change in Total sum

Liabilities swap

- The increase in at least one liabilities-side account corresponds with the decrease in at least one other liabilities-side account
- Change in capital structure
- No change in Total sum

Status quo

Debit	Balance sheet from 31.12.XX		Credit
Fixed assets	8,000	Equity capital	5,000
Current assets	12,000	Debt capital	15,000
Total	20,000	Total	20,000

2.5 Income/Profit and Loss

Liabilities swap

Assets swap

- The increase in at least one assets-side account corresponds with the decrease in at least one other assets-side account
- Change in assets structure
- No change in Total sum

Liabilities swap

- The increase in at least one liabilities-side account corresponds with the decrease in at least one other liabilities-side account
- Change in capital structure
- No change in Total sum

Example: Converting a current liability of 4,000 CU in a non-current liability

Debit	Balance sheet from 31.12.XX		Credit
Fixed assets	8,000	Equity capital	5,000
Current assets	12,000	Debt capital	15,000
		Current liability	-4,000
		Non-current liability	4,000
Total	20,000	Total	20,000

2.5 Income/Profit and Loss

Balance extension

Balance extension

- Asset-side and liabilities-side accounts increase with the same amount
- Increase in total sum

Status quo

Debit	Balance sheet from 31.12.XX		Credit
Fixed assets	8,000	Equity capital	5,000
Current assets	12,000	Debt capital	15,000
Total	20,000	Total	20,000

2.5 Income/Profit and Loss

Balance extension

Balance extension

- Asset-side and liabilities-side accounts increase with the same amount
- Increase in total sum

Example: Buying a car for 5,500 CU on credit

Debit	Balance sheet from 31.12.XX		Credit
Fixed assets	13,500	Equity capital	5,000
Car	5,500	Debt capital	20,500
Current assets	12,000	Payables	5,500
Total	25,500	Total	25,500

2.5 Income/Profit and Loss

Balance shortening

Balance extension	Balance shortening
<ul style="list-style-type: none"> — Asset-side and liabilities-side accounts increase with the same amount — Increase in total sum 	<ul style="list-style-type: none"> — Asset-side and liabilities-side accounts decrease in the same amount — Decrease in total sum

Status quo			
Debit	Balance sheet from 31.12.XX		Credit
Fixed assets	8,000	Equity capital	5,000
Current assets	12,000	Debt capital	15,000
Total	20,000	Total	20,000

2.5 Income/Profit and Loss

Balance extension

Balance extension	Balance shortening
<ul style="list-style-type: none"> — Asset-side and liabilities-side accounts increase with the same amount — Increase in total sum 	<ul style="list-style-type: none"> — Asset-side and liabilities-side accounts decrease in the same amount — Decrease in total sum

Example: Paying the tax bill of 500 via bank transfer

Debit	Balance sheet from 31.12.XX		Credit
Fixed assets	8,000	Equity capital	5,000
Current assets	11,500	Debt capital	14,500
Cash in banks	-500	Tax payables	-500
Total	19,500	Total	19,500

2.5 Income/Profit and Loss

Hybrid accounts

Profit neutral transactions	Profit affecting transactions	Hybrid transactions
Changes in balance situation with no impact to the profit situation	Changes in balance situation with impact to the profit situation	Splitting possible into a part with impact and a part with no impact to the profit situation

Status quo

Debit	Balance sheet from 31.12.XX		Credit
Fixed assets	8,000	Equity capital	5,000
Current assets	12,000	Debt capital	15,000
Total	20,000	Total	20,000

Debit	Profit and Loss X1		Credit
Expenses	0	Income	0
Profit	0		
Total	0	Total	0

2.5 Income/Profit and Loss

Hybrid accounts

Profit neutral transactions	Profit affecting transactions	Hybrid transactions
Changes in balance situation with no impact to the profit situation	Changes in balance situation with impact to the profit situation	Splitting possible into a part with impact and a part with no impact to the profit situation

Example 1: Assets swap and balance extension, Cash sales of goods with acquisition costs of 800 to 1,000

Debit	Balance sheet from 31.12.XX		Credit
Fixed assets	8,000	Equity capital	5.200
Current assets	12.200	Profit	200
Inventory	-800		
Cash on hand	1,000	Debt capital	15,000
Total	20,200	Total	20,200

Debit	Profit and Loss X1		Credit
Cost of sales	800	Sales	1,000
Final Result	200		
Total	1,000	Total	1,000

2.5 Income/Profit and Loss

Hybrid accounts

Profit neutral transactions	Profit affecting transactions	Hybrid transactions
Changes in balance situation with no impact to the profit situation	Changes in balance situation with impact to the profit situation	Splitting possible into a part with impact and a part with no impact to the profit situation

Example 2: Assets swap and balance shortening, Selling securities with acquisition cost of 2,200 for 1,800 via bank transfer

Debit	Balance sheet from 31.12.XX		Credit
Fixed assets	8,000	Equity capital	4,600
Current assets	11.600	Profit	-400
Securities	-2.200	Debt capital	15,000
Cash in banks	1.800		
Total	19.600	Total	19.600

Debit	Profit and Loss X1		Credit
Loss securities	400	Loss	400
Total	400	Total	400

2 Basic concepts of bookkeeping

Overview

Basic concepts of bookkeeping

1

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**Equity Capital account
and its sub-accounts**

2

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Summary Overview

5

Income/Profit and Loss

MC-Questions

2.6 Equity Capital account and its sub-accounts

Introductory case study

Assets			Balance sheet		Liabilities	
Debit	Fixed Assets	Credit	Debit	Equity Capital	Credit	
	(OB) 18,000			500	(OB) 32,000	
	6,000			800	200	
				100		
				125		
Debit	Current Assets	Credit	Debit	Debt Capital	Credit	
	(OB) 84,000	6,000			(OB) 70,000	
	200	500			100	
		800				
		125				

2.6 Equity Capital account and its sub-accounts

Introductory case study

Debit	Equity capital		Credit
Cash withdrawal	3,500	Capital investment Tommy TUMler (grandmother)	1,000
		Capital investment Tommy TUMler	9,000
		In-kind investments	4,000
		Capital investment Tommy TUMler	9,500
		Capital investment Amy Angel	12,000
Fee	500	Sales	200
Rental	800		
Electricity	100		
Interest	125		

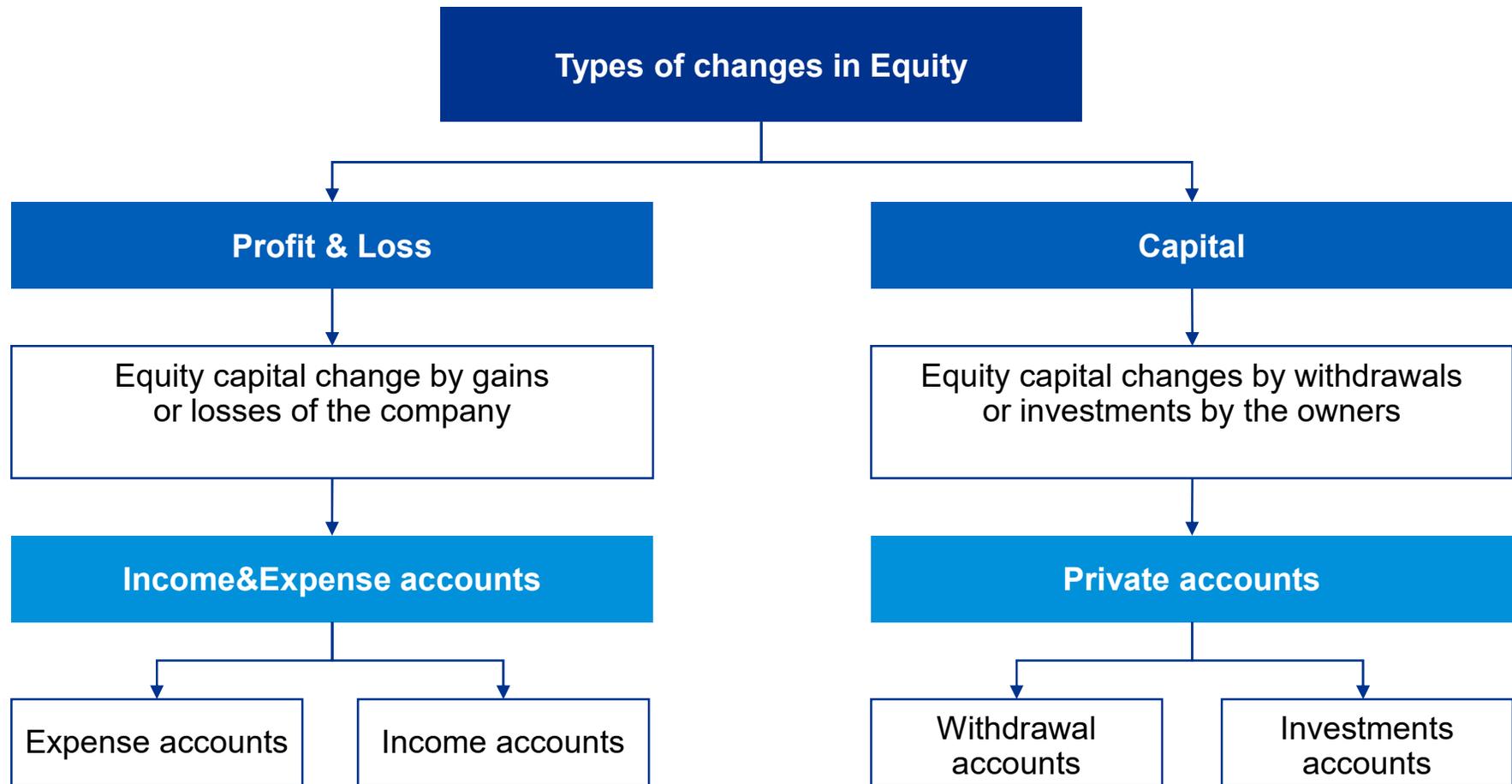
2.6 Equity Capital account and its sub-accounts

Introductory case study

Debit		Equity capital		Credit																									
<table border="1"> <thead> <tr> <th>D</th> <th>Withdrawals</th> <th>C</th> </tr> </thead> <tbody> <tr> <td></td> <td>3,500</td> <td></td> </tr> </tbody> </table>		D	Withdrawals	C		3,500		<table border="1"> <thead> <tr> <th>D</th> <th>Investments</th> <th>C</th> </tr> </thead> <tbody> <tr> <td></td> <td></td> <td>1,000</td> </tr> <tr> <td></td> <td></td> <td>9,000</td> </tr> <tr> <td></td> <td></td> <td>4,000</td> </tr> <tr> <td></td> <td></td> <td>9,500</td> </tr> <tr> <td></td> <td></td> <td>12,000</td> </tr> </tbody> </table>		D	Investments	C			1,000			9,000			4,000			9,500			12,000	Private accounts	
D	Withdrawals	C																											
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<p>Note: Equity sub-accounts work like the equity capital account. They ARE equity capital accounts, just "sub-accounts".</p>																													

2.6 Equity Capital account and its sub-accounts

Types of changes in Equity



2 Basic concepts of bookkeeping

Overview

Basic concepts of bookkeeping

1 **Business transactions**

6 **Equity Capital account
and its sub-accounts**

2 **Bookkeeping systems**

7 **Stocktaking and Inventory**

3 **T-account**

4 **Vouchers and Journal entry**

Summary Overview

5 **Income/Profit and Loss**

MC-Questions

2.7 Stocktaking and Inventory

Introductory case study

Case 12

Since **Tommy TUMler** also wants to develop and assemble individual bicycles for his customers, he requires materials such as bicycle frames, spokes, tubes, aluminum tubes (so-called **raw materials**) and much more. He also required screws and other small parts (so-called **supplies**). Finally, he needs lubricants, detergent etc. (so-called **consumables**).

His first material purchases are the following:

10 bicycle frames on credit	3,350	Consumables in cash	2,850
100 bicycle tires in cash	2,550	10 sport bikes for resale on credit	6,450
50 special gearshifts	1,550	10 bicycle for further processing on credit	4,750
Supplies in cash	1,850		

Question

How are these business transactions correctly posted?

2.7 Stocktaking and Inventory

Introductory case study

Assets			Balance sheet		Liabilities		
Debit	Fixed Assets	Credit	Debit	Equity Capital	Credit		
	(OB) 18,000			500		(OB) 32,000	
	6,000			800		200	
				100			
				125			
				Credit balance 30,675			
Debit	Current Assets	Credit	Debit	Debt Capital	Credit		
	(OB) 84,000			Credit balance 70,100		(OB) 70,000	
	200	6,000				100	
		500					
		800					
		125					
		Debit balance 76,775					
Total		100,775	Total			100,775	

2.7 Stocktaking and Inventory

Introductory case study

Assets				Balance sheet				Liabilities			
Fixed assets				Equity capital				Debt capital			
D			C	D			C	D			C
	(OB) 24,000						(OB) 30,675				
Current assets				Payables				Loans			
D	Raw materials	C	D	Supplies	C	D		D		C	
	3,350			1,850							(OB) 10,100
	2,550										3,350
	1,550										6,450
D	Consumables	C	D	Unfinished goods	C						4,750
	2,850			4,750							
D	Bank/Cash	C	D	Goods for resale	C						
(OB) 76,775		2,550		6,450							60,000
		1,550									
		1,850									
		2,850									

2.7 Stocktaking and Inventory

Introductory case study

Case 13

Some fellow students have heard from the entrepreneurial activities of **Tommy TUMler** and came up to him to purchase bicycles. The first trades were successfully executed as follows:

3 sport bicycles in cash	2,535
2 bicycles after processing (special gearshift installation)	1,812

Question

How are these business transactions correctly posted?

2.7 Stocktaking and Inventory

Introductory case study

Assets				Balance sheet				Liabilities																																																			
<table border="1"> <thead> <tr> <th colspan="2">Fixed assets</th> <th colspan="2"></th> </tr> </thead> <tbody> <tr> <td>D</td> <td>(OB) 24,000</td> <td>C</td> <td></td> </tr> </tbody> </table>				Fixed assets				D	(OB) 24,000	C		<table border="1"> <thead> <tr> <th colspan="2">Equity capital</th> <th colspan="2"></th> </tr> </thead> <tbody> <tr> <td>D</td> <td>1,935</td> <td>C</td> <td>(OB) 30,675</td> </tr> <tr> <td></td> <td>950</td> <td></td> <td>2,535</td> </tr> <tr> <td></td> <td>62</td> <td></td> <td>1,812</td> </tr> <tr> <td colspan="2"></td> <td colspan="2">= Profit 1,400</td> </tr> </tbody> </table>				Equity capital				D	1,935	C	(OB) 30,675		950		2,535		62		1,812			= Profit 1,400																									
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2.7 Stocktaking and Inventory

Introductory case study

Case 14

Welcoming the first business transactions **Tommy TUMler** wants to determine the profit with Amy Angel at month end. Astonished, he notes that in the books, a loss is recognized. He begins to doubt at the bookkeeping knowledge of **Amy Angel**. **Amy Angel** reassures him and tells him that adjusting postings must be performed due to the stocktaking.

Question

1. What does **Amy Angel** mean with „adjusting postings“?
2. And what is a stocktaking?

2.7 Stocktaking and Inventory

Introductory case study

Assets				Balance sheet (provisional)				Liabilities																																																																																																																																																															
<table border="0" style="width: 100%;"> <tr> <td style="width: 50%; text-align: center;">D</td> <td colspan="2" style="text-align: center;">Fixed assets</td> <td style="width: 50%; text-align: center;">C</td> </tr> <tr> <td colspan="2" style="border-top: 1px solid black;">(OB) 24,000</td> <td colspan="2"></td> </tr> <tr> <td colspan="4"> </td> </tr> <tr> <td colspan="4" style="text-align: center;">Current assets</td> </tr> <tr> <td style="width: 25%;">D</td> <td style="width: 25%;">Raw materials (R)</td> <td style="width: 25%;">D</td> <td style="width: 25%;">Supplies (S)</td> </tr> <tr> <td colspan="2" style="border-top: 1px solid black;"></td> <td colspan="2" style="border-top: 1px solid black;"></td> </tr> <tr> <td colspan="2"> </td> <td colspan="2"> </td> </tr> <tr> <td style="border-top: 1px solid black;">D</td> <td style="border-top: 1px solid black;">Consumables (C)</td> <td style="border-top: 1px solid black;">D</td> <td style="border-top: 1px solid black;">Unfinished goods (UG)</td> </tr> <tr> <td colspan="2" style="border-top: 1px solid black;"></td> <td colspan="2" style="border-top: 1px solid black;"></td> </tr> <tr> <td colspan="2"> </td> <td colspan="2"> </td> </tr> <tr> <td style="border-top: 1px solid black;">D</td> <td style="border-top: 1px solid black;">Bank/Cash</td> <td style="border-top: 1px solid black;">D</td> <td style="border-top: 1px solid black;">Goods for resale (GfR)</td> </tr> <tr> <td colspan="2" style="border-top: 1px solid black;">(OB) 76,775</td> <td colspan="2" style="border-top: 1px solid black;"></td> </tr> <tr> <td colspan="2" style="border-right: 1px solid black;">2,550</td> <td colspan="2"></td> </tr> <tr> <td colspan="2" style="border-right: 1px solid black;">2,535</td> <td colspan="2"></td> </tr> <tr> <td colspan="2" style="border-right: 1px solid black;">1,812</td> <td colspan="2"></td> </tr> <tr> <td colspan="2" style="border-right: 1px solid black;"></td> <td colspan="2"></td> </tr> <tr> <td colspan="2" style="border-right: 1px solid black;">2,850</td> <td colspan="2"></td> </tr> </table>				D	Fixed assets		C	(OB) 24,000								Current assets				D	Raw materials (R)	D	Supplies (S)									D	Consumables (C)	D	Unfinished goods (UG)									D	Bank/Cash	D	Goods for resale (GfR)	(OB) 76,775				2,550				2,535				1,812								2,850				<table border="0" style="width: 100%;"> <tr> <td style="width: 50%; 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2.7 Stocktaking and Inventory

Introductory case study

Assets				Balance sheet (provisional)				Liabilities				
Fixed assets				Equity capital								
D				C	D				C			
(AB) 24,000								(AB) 30,675				
								Profit: 1,400				
Current assets												
D	Raw materials	C	D	Supplies	C	D	Material expenses	C	D	Sales	C	
	3,350			1,850			(R) 3,350	(R) 3,350		4,347	2,535	
	2,550						(R) 2,550	(R) 2,550		+	1,812	
	1,488						(R) 1,550	(R) 1,488				
							(S) 1,850	(S) 1,850				
							(C) 2,850	(C) 2,850				
D	Consumables	C	D	Unfinished goods	C		(UG) 4,750	(UG) 3.800				
	2,850			3.800			(GfR) 6,450	(GfR) 4,515				
								2,947				
D	Bank/Cash	C	D	Goods for resale	C	D	Payables	C	D	Loans	C	
	(AB) 76,775	2,550		4,515				(AB) 24,650			(AB) 60,000	
	2,535	1,550						3,350				
	1,812	1,850						6,450				
		2,850						4,750				

2.7 Stocktaking and Inventory

Definition „stocktaking“

-
- As part of the stocktaking, the assets and liabilities are recognized in terms of **volume** at the reporting date by counting, weighing or measuring.
 - After the review of the identified quantity by the stocktaking, a comparison between financial accounts and the respective stocktaking volume takes place.
 - Identified differences between bookkeeping and inventory are recognized for accounting purposes in accordance with stocktaking.

2.7 Stocktaking and Inventory

Necessity of stocktaking

By law:

An annual stocktaking is obligatory for merchants in accordance with § 238 HGB

Commercial:

Even if everything would have been „correctly“ recorded and documented stock withdrawals with requisition slips, there could be stock discrepancies caused by spoilage, shrinkage, breakage, embezzlement, disposal, damage etc. without an adjustment posting. This would lead to an incorrect view of the company's financial situation.

2 Basic concepts of bookkeeping

Overview

Basic concepts of bookkeeping

1 **Business transactions**

6 **Equity Capital account
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2 **Bookkeeping systems**

7 **Stocktaking and Inventory**

3 **T-account**

4 **Vouchers and Journal entry**

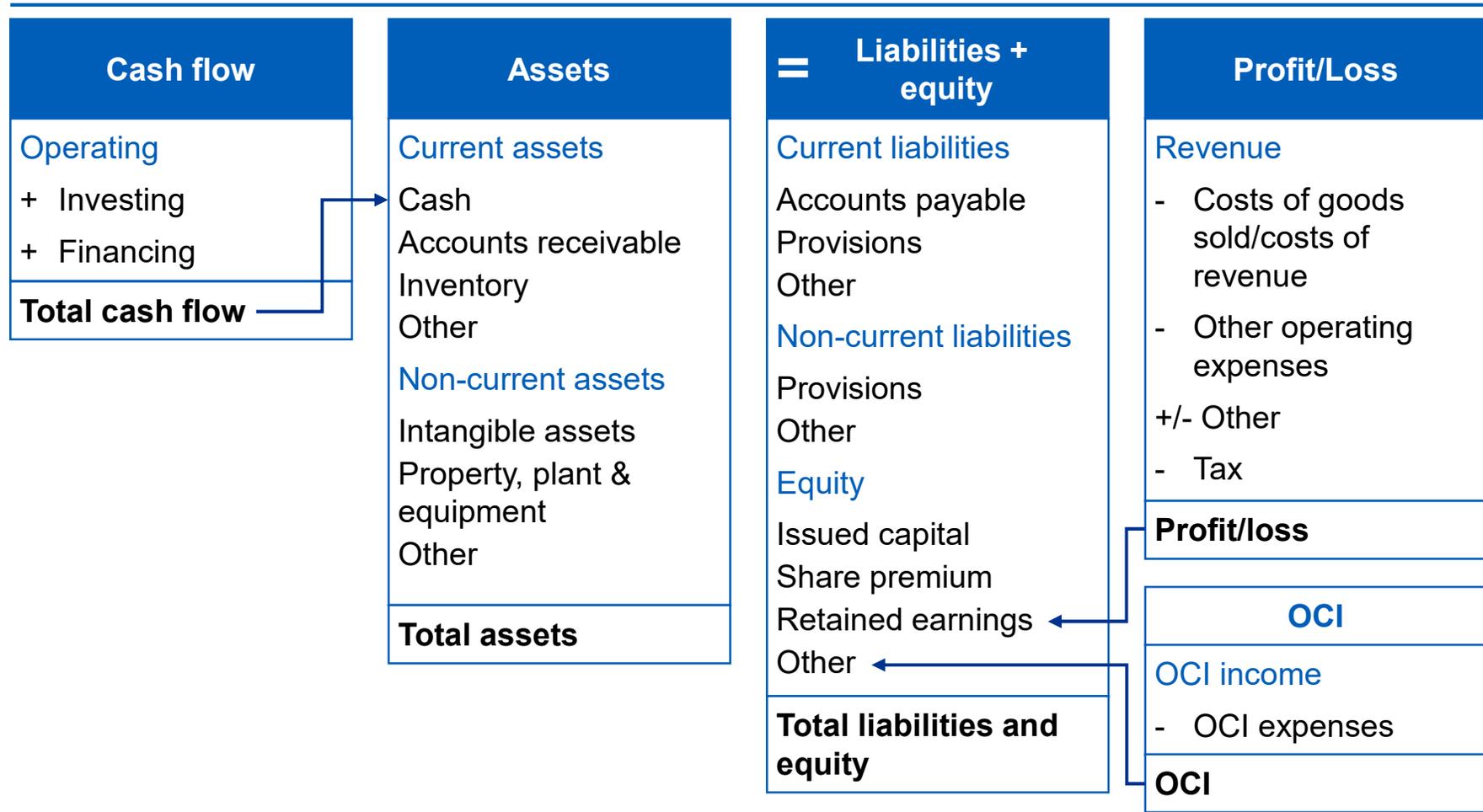
Summary Overview

5 **Income/Profit and Loss**

MC-Questions

2.8 Summary overview

Accounting equation

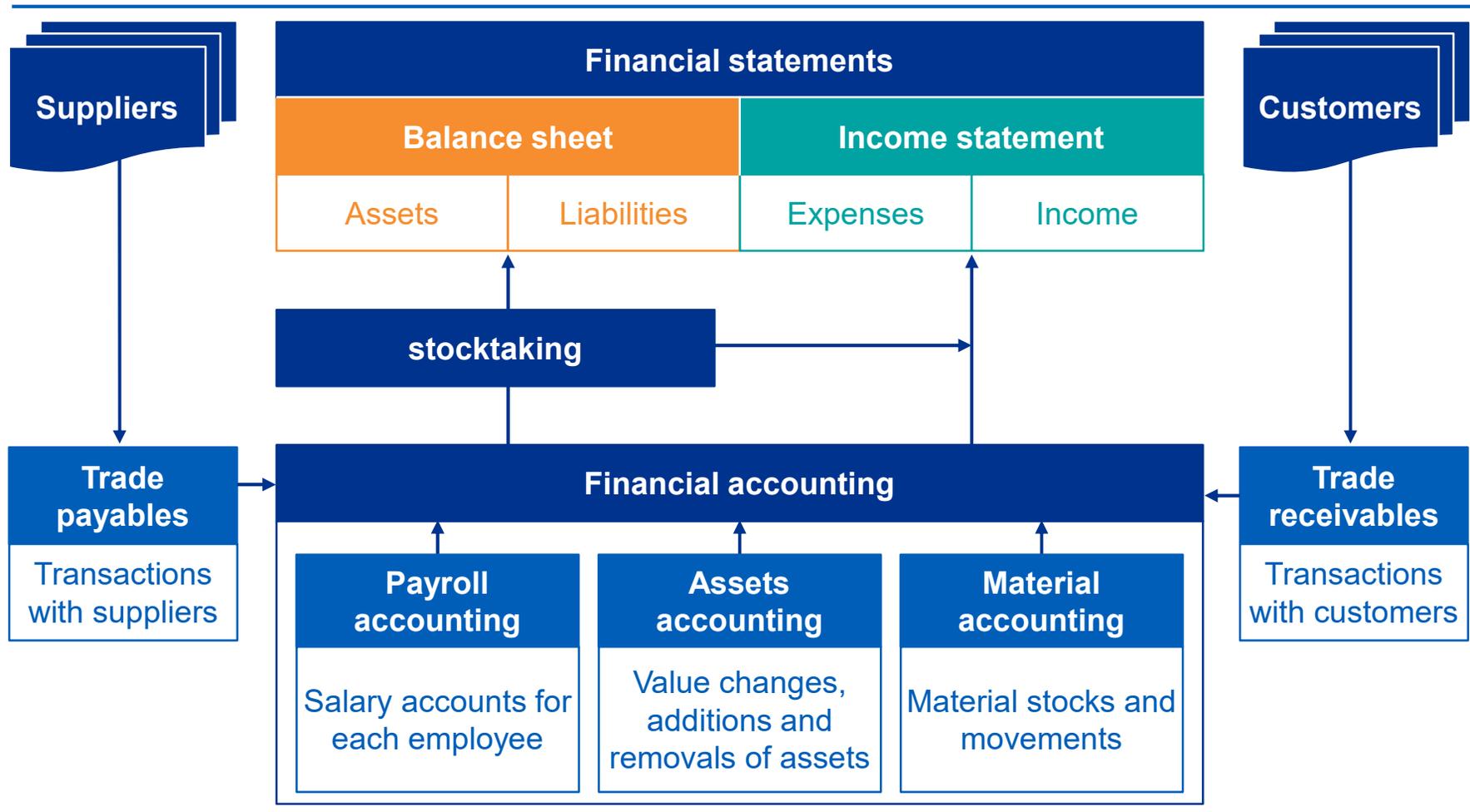


Source: Prof. Dr. Ernstberger

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 Prof. Dr. Bernd Grottel

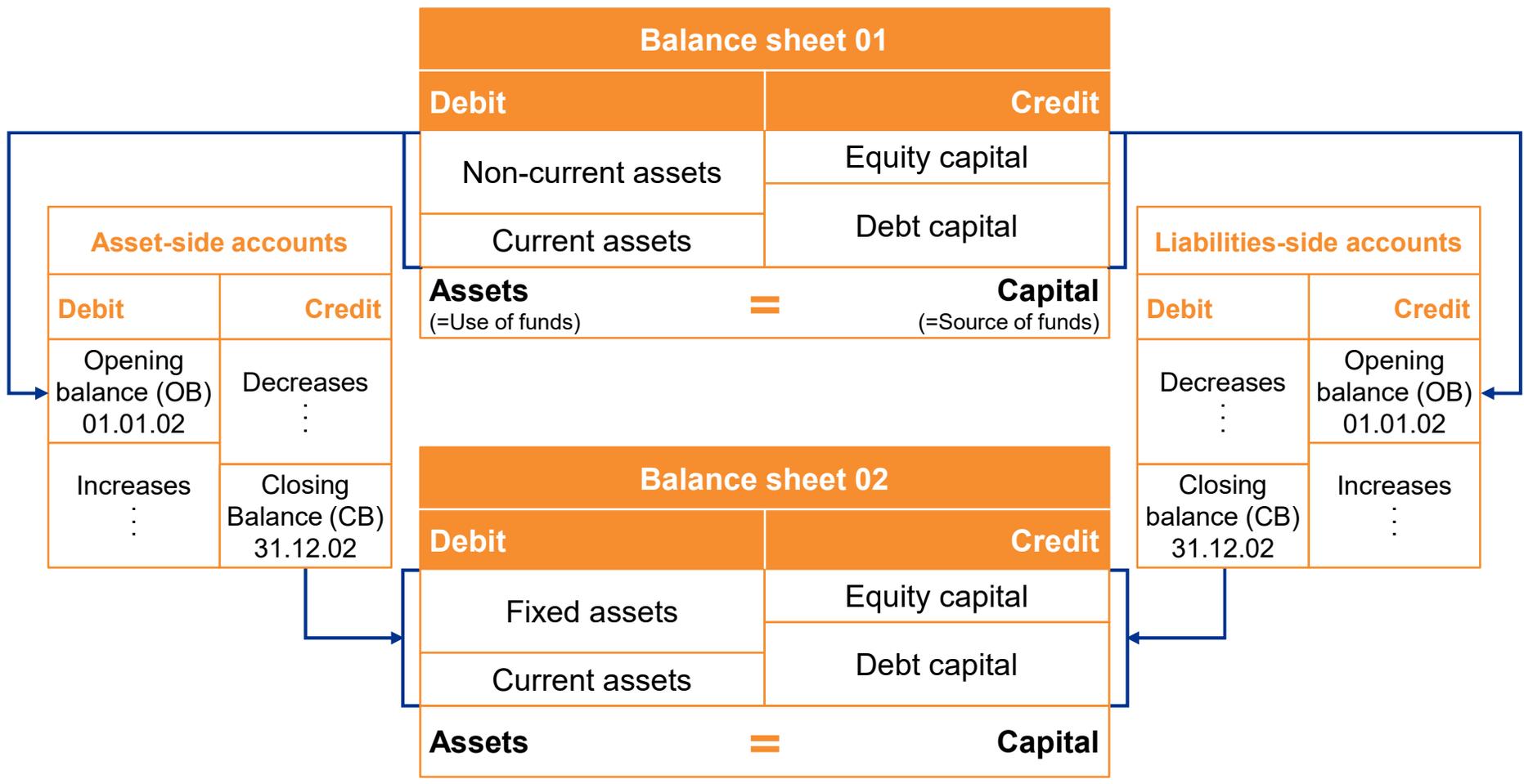
2.8 Summary overview

Bookkeeping, stocktaking and financial statements



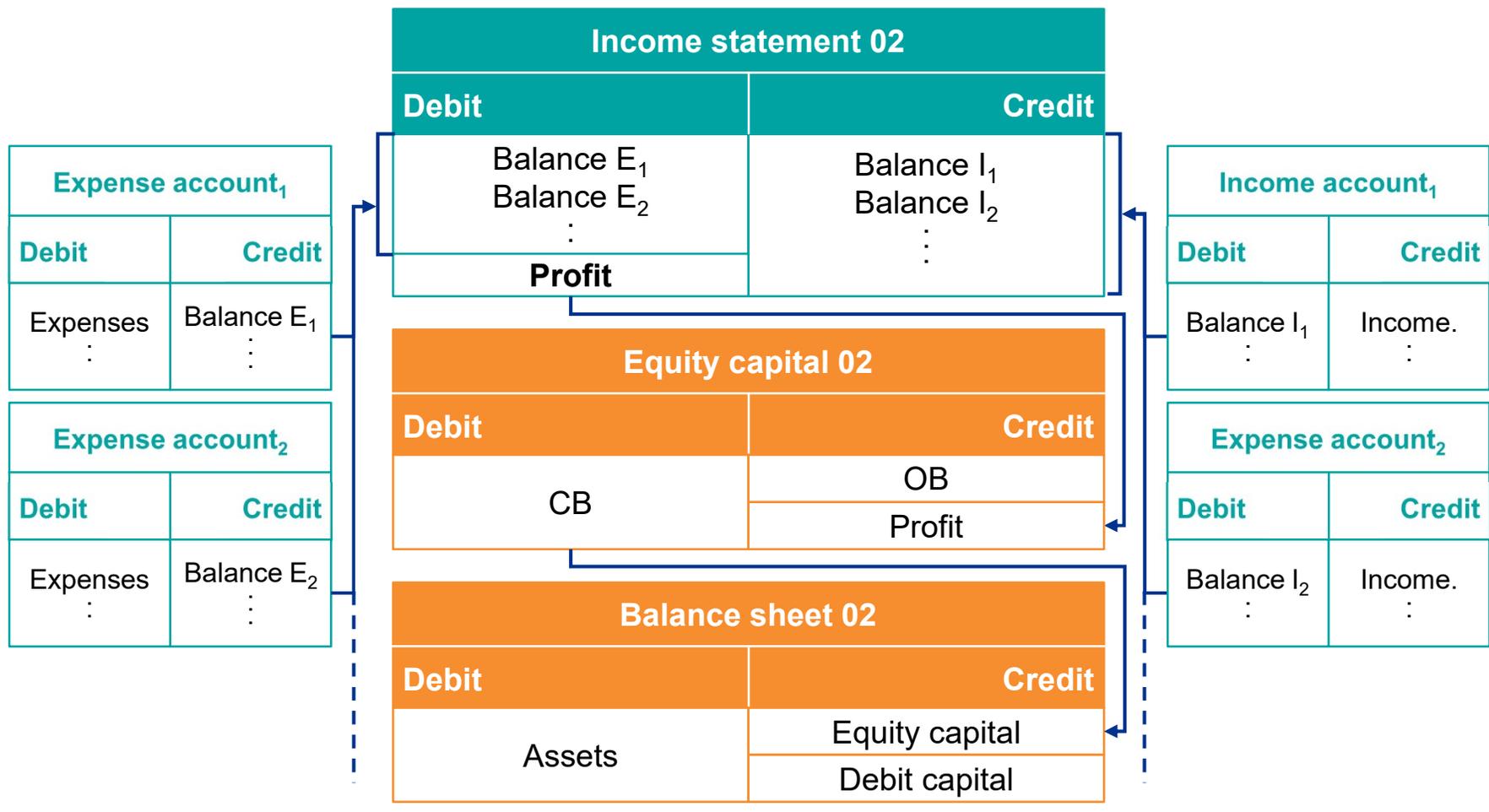
2.8 Summary overview

Formal structure of a balance sheet



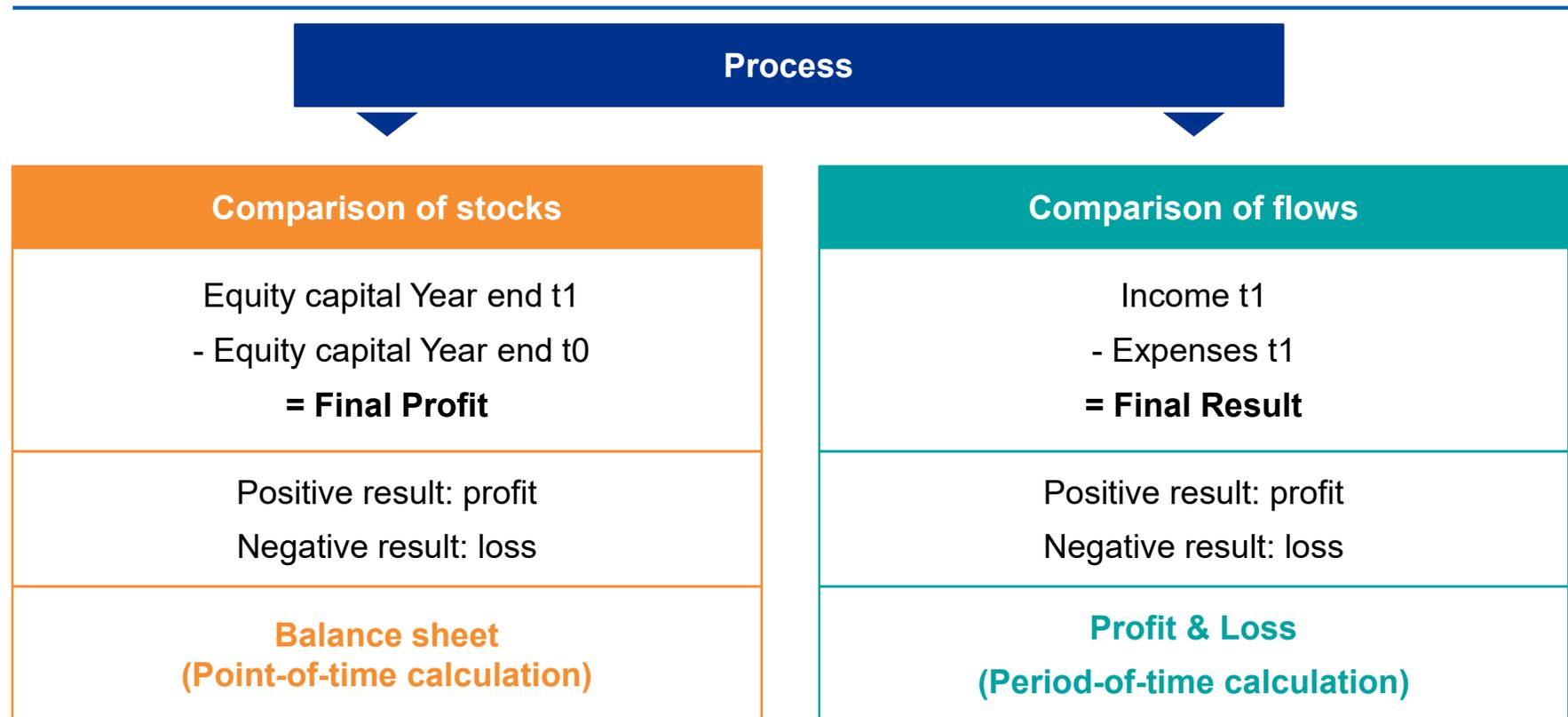
2.8 Summary overview

Formal structure of Profit & Loss/Income Statement



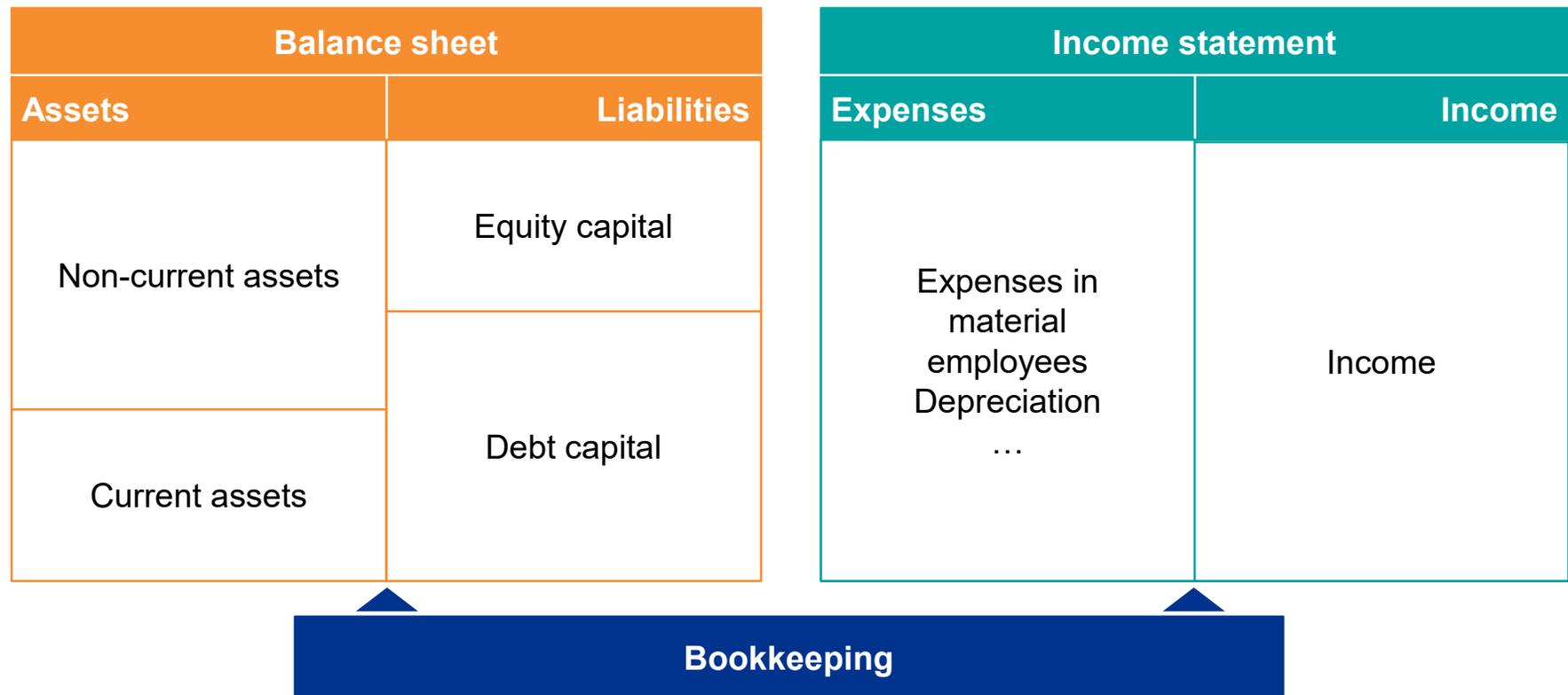
2.8 Summary overview

Process of profit calculation



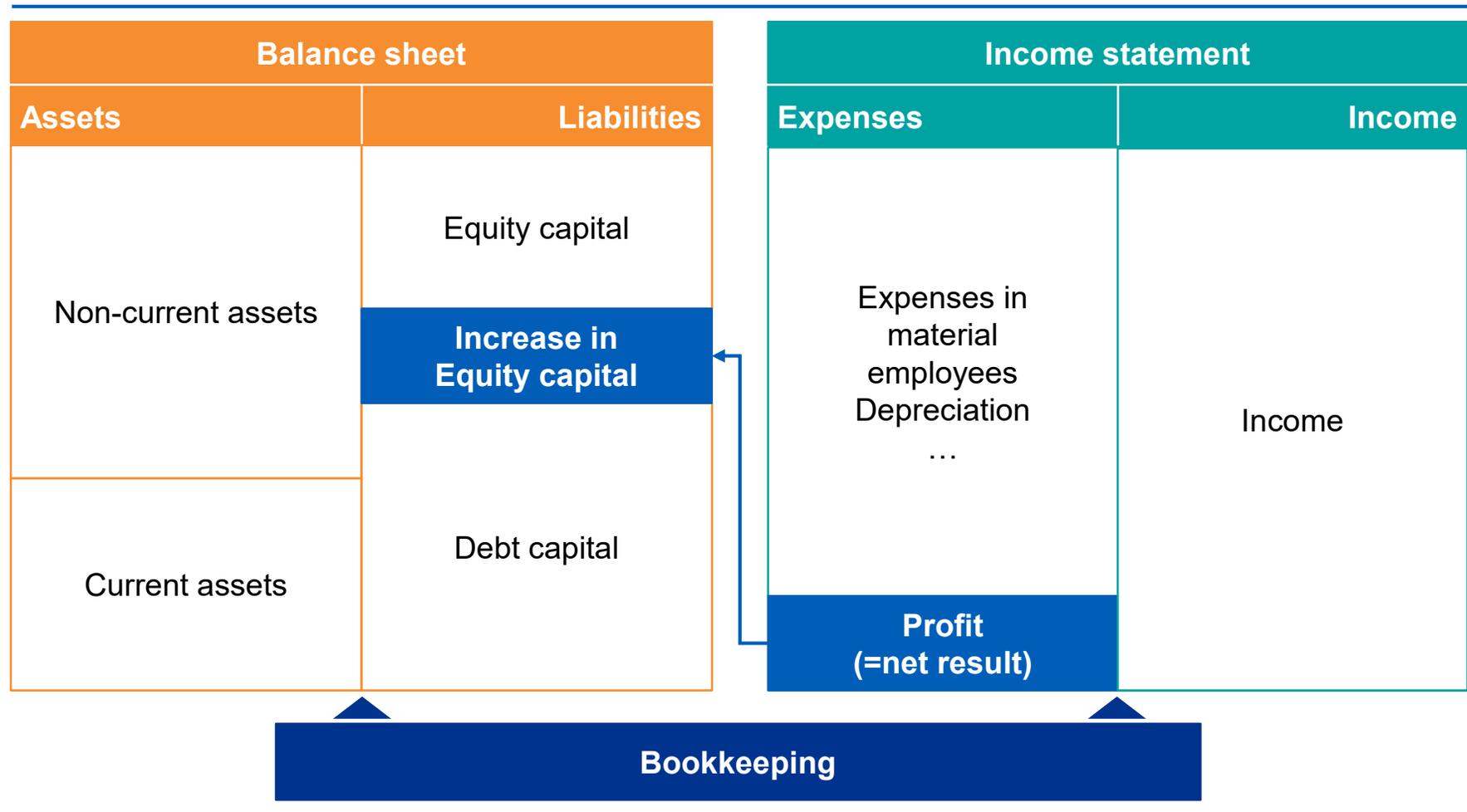
2.8 Summary overview

Relation between bookkeeping and financial statement



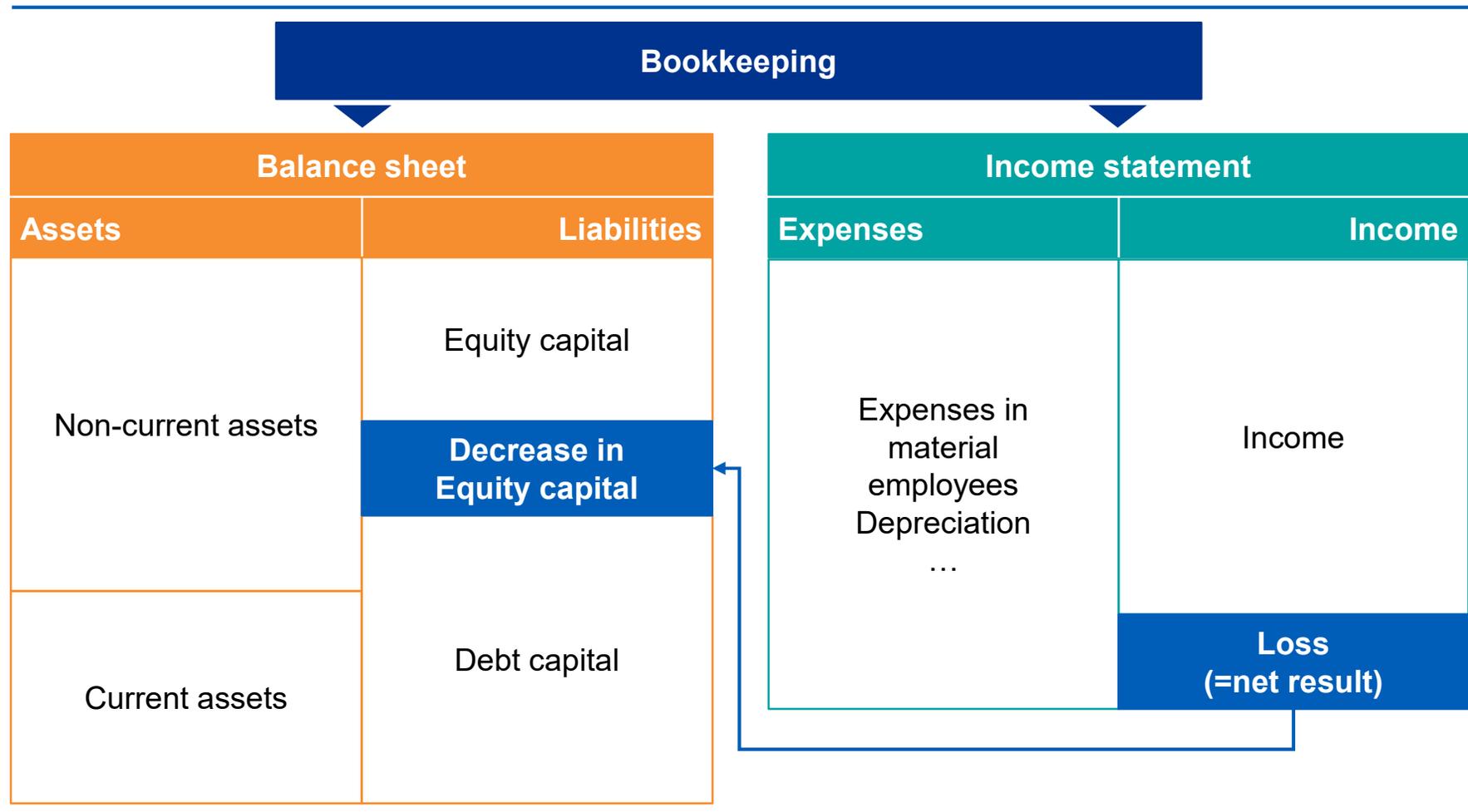
2.8 Summary overview

Relation between bookkeeping and financial statement: profit



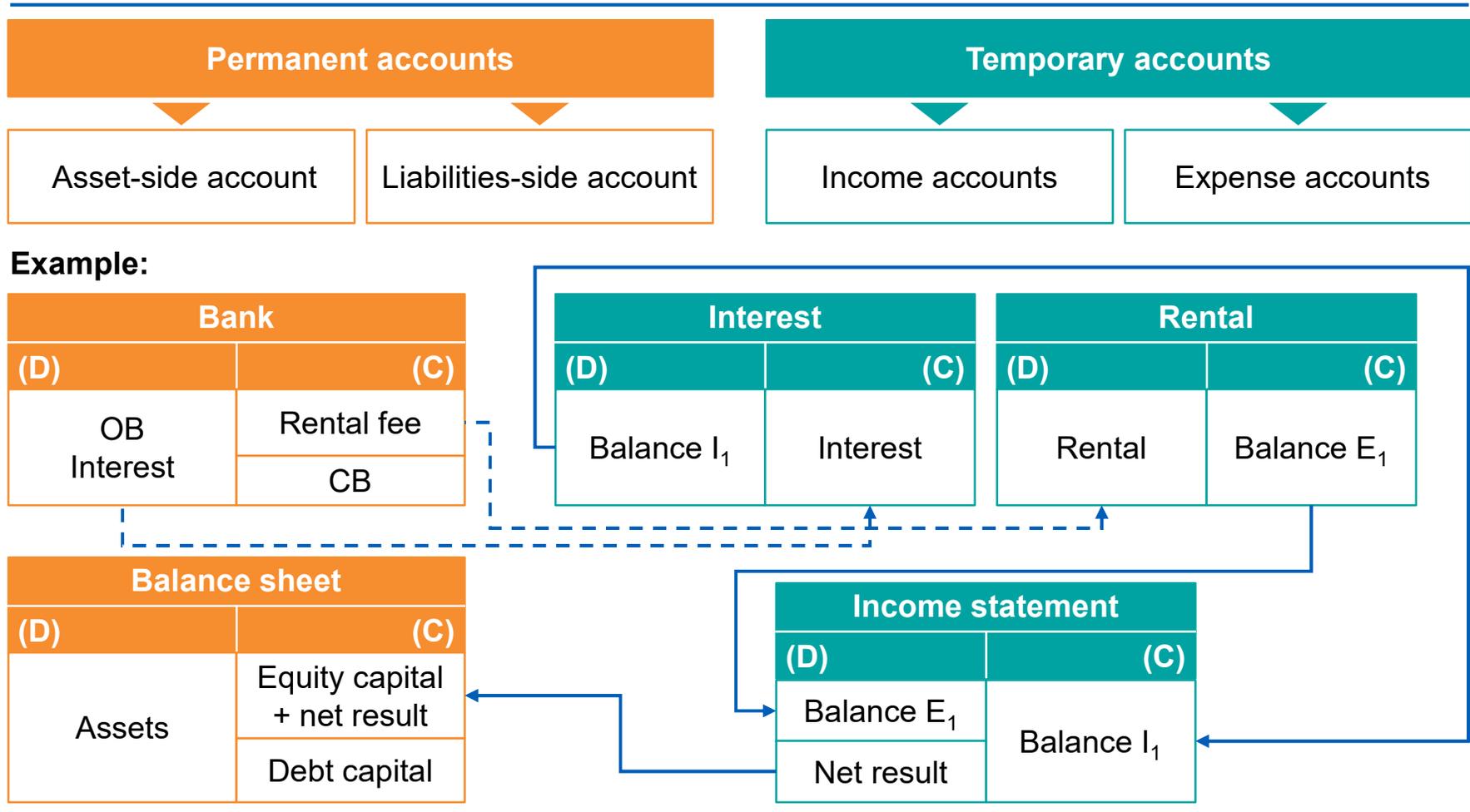
2.8 Summary overview

Relation between bookkeeping and financial statement: loss



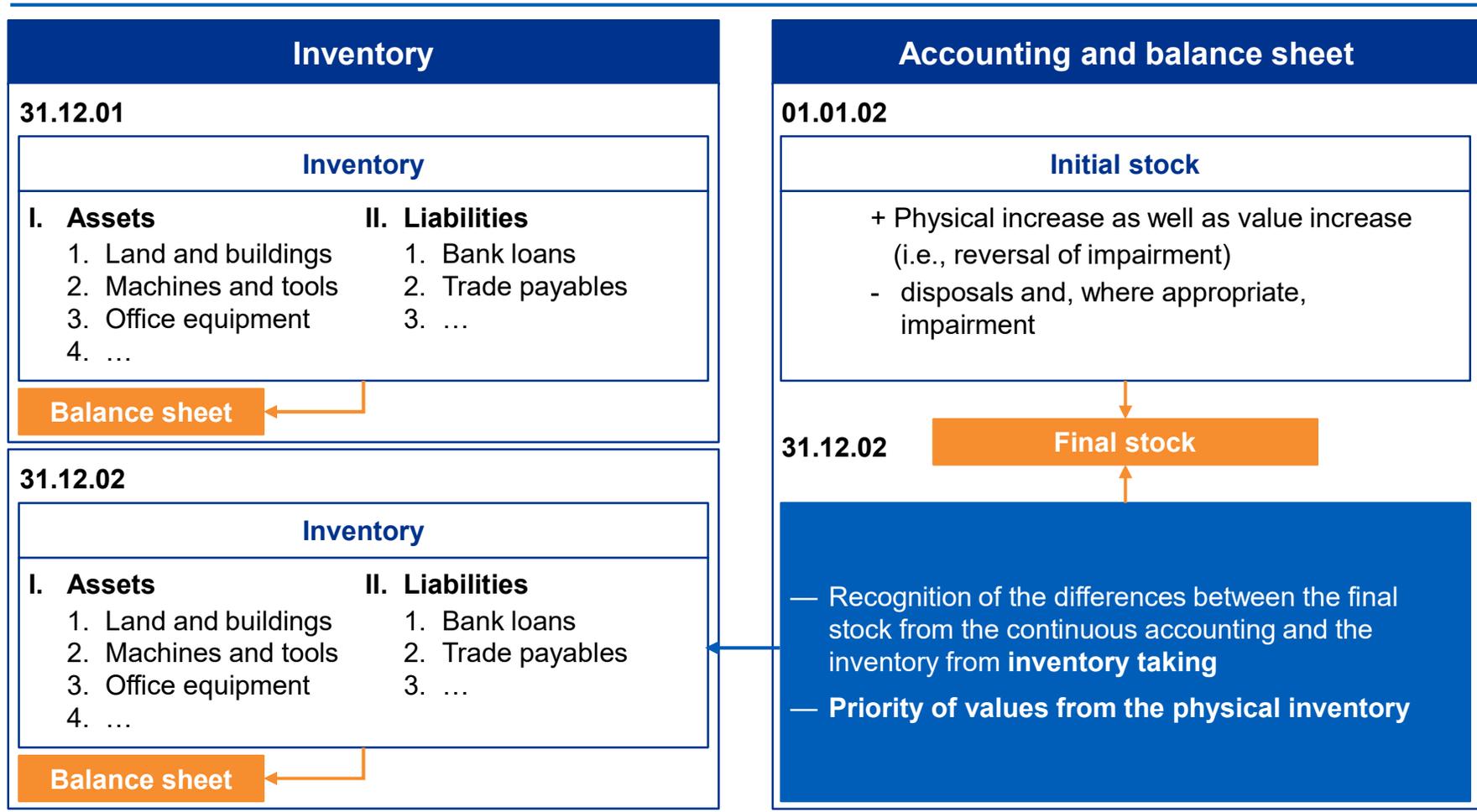
2.8 Summary overview

Relation between bookkeeping and Financial statement



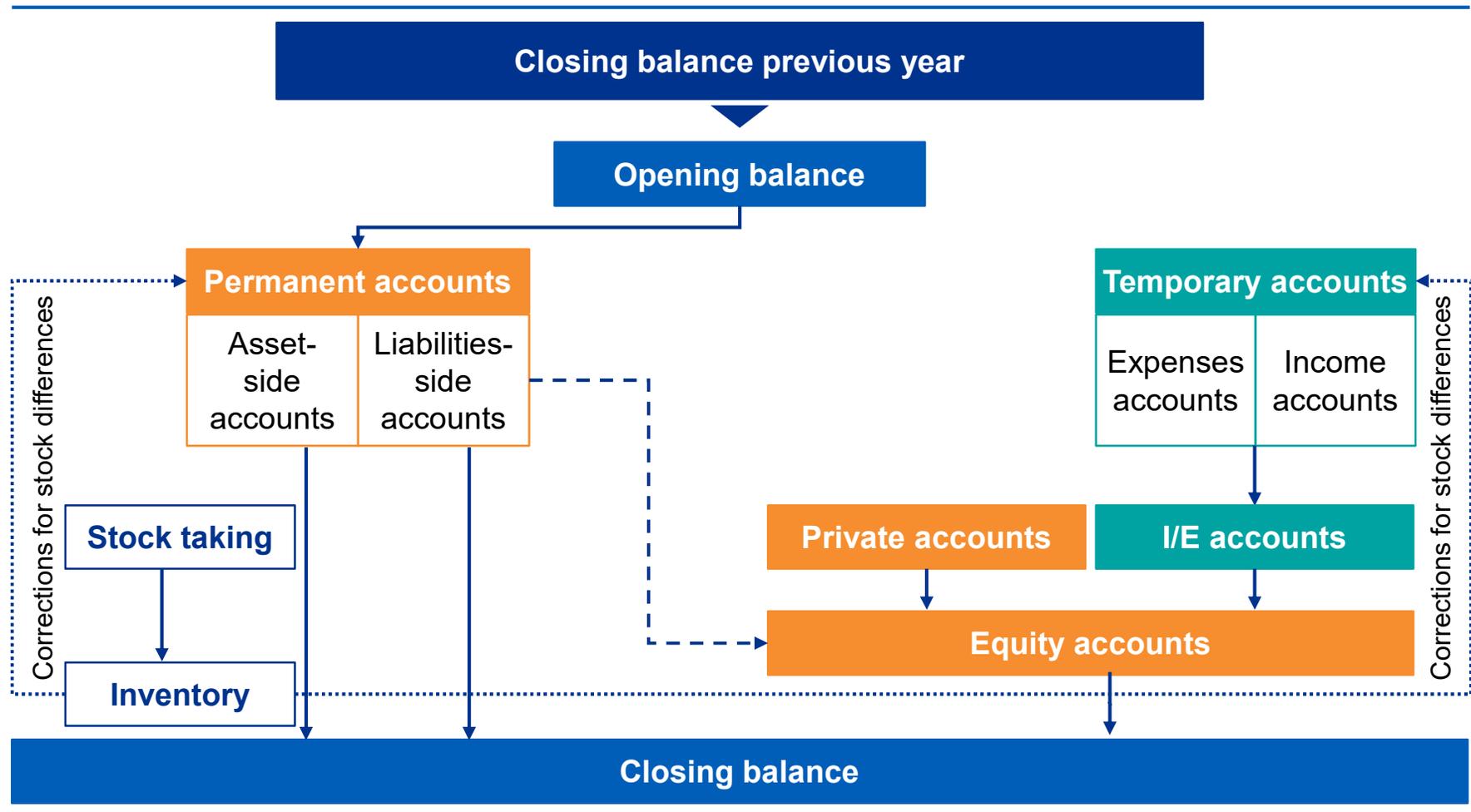
2.8 Summary overview

Relation between bookkeeping and Inventory



2.8 Summary overview

From the opening balance sheet to the closing balance sheet



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Basic concepts of bookkeeping

1 **Business transactions**

6 **Equity Capital account
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3 **T-account**

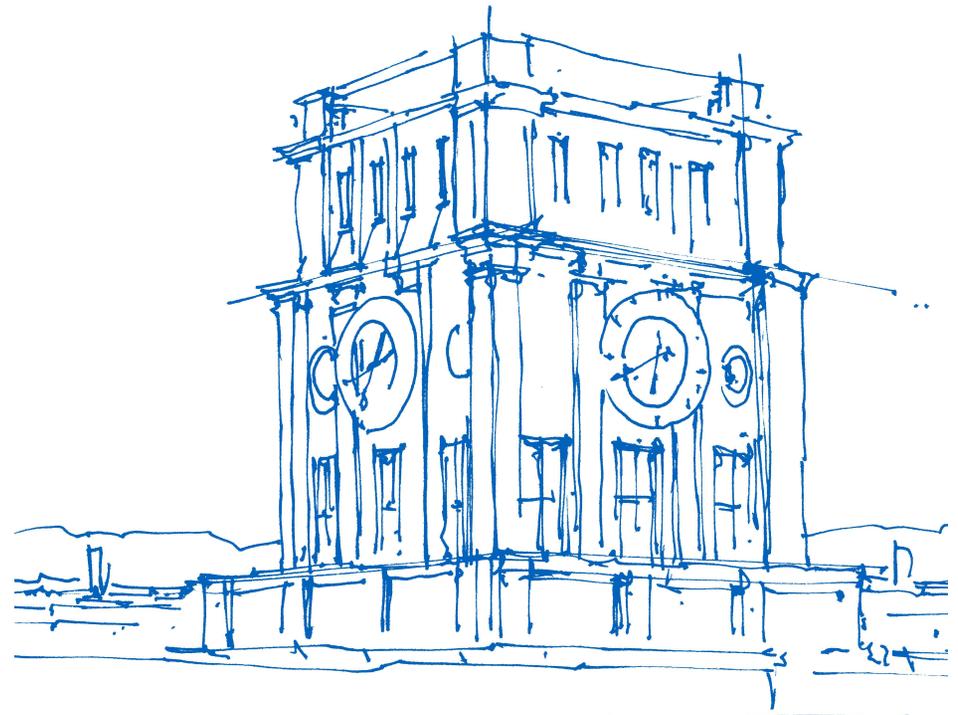
4 **Vouchers and Journal entry**

Summary Overview

5 **Income/Profit and Loss**

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3 Basic concepts of year-end closings



Uhrenturm der TUM

3 Basic concepts of year-end closings

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2	Significant adjusting journal entries
3	Profit calculation and Equity capital account closing
4	Closing balance sheet and Closing balance sheet account
5	Opening balance sheet and Opening balance sheet account
6	Books and Bookkeeping
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3.1 Basics

Introductory case study

Case 15

After **Amy Angel** explained the stocktaking to **Tommy TUMler**, he calmed down immediately. He admires the accounting knowledge of **Amy Angel** and feels vindicated in having her included as a co-partner in his company. Now he can once again devote his business activities.

In the meantime, **Amy Angel** got a phone call from **Bruno Banco**. He wanted to get an update about the business activities and asked **Amy Angel** to provide him an annual financial statement. **Amy Angel** explained that they are just preparing the statement. She will provide it in about one week.

Questions

- 1) What is an annual financial statement?
- 2) What connection exists between the financial statement and the bookkeeping?
- 3) What should be done within the process of preparing the financial statements?

3.1 Basics

Introductory case study

1. Post certain year-end closings (=adjusting journal entries)
2. Calculate profit (=Final result)
3. Post the final result to the equity capital account
4. Post withdrawals/investments on the equity capital account
5. Prepare the closing balance sheet

3.1 Basics

Introductory case study

Wrap up

Assets		Balance sheet (after stocktaking)				Liabilities					
D	Machinery (FA)	C	D	Tools (FA)	C	D	Withdrawals (EC)	C	D	Investments (EC)	C
	3,000			1,000			3,500				1,000
	1,500			2,000							9,000
	8,000			2,500							4,000
	6,000										9,500
											12,000
D	Raw materials	C	D	Supplies	C	D	Material exp.	C	D	Sales	C
	3,350			1,850			3,350	3,350			200
	2,550						2,550	2,550			2,535
	1,488						1,550	1,488			1,812
							1,850	1,850			
							2,850	2,850			
							4,750	3,800			
							6,450	4,515			
D	Consumables	C	D	Unfinished goods	C	D	Fees/Electricity	C	D	Interest	C
	2,850			3,800			800			125	
							100				
							500				
D	Bank/Cash	C	D	Goods for resale	C	D	Payables (DC)	C	D	Loans (DC)	C
	1,000	1,500		4,515			800	2,000			10,000
	9,000	3,500					100	8,000			20,000
	10,000	2,500					500	100			30,000
	20,000	6,000						3,350			
	30,000	500						6,450			
	9,500	800						4,750			
	12,000	125									
	200	2,550									
	2,535	1,550									
	1,812	1,850									
		2,850									

3.1 Basics

Introductory case study

Case 16

Amy Angel tells **Tommy TUMler** of her conversation with **Bruno Banco**. She tells him that they will soon have completed the financial statement after gathering all year-end closings (=adjusting journal entries). **Tommy TUMler** is again confused because he thought that all business transactions and vouchers already have been posted. Also, he doesn't know the term "**adjusting journal entries**".

Question

What does **Amy Angel** mean with significant adjusting journal entries?

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MC-Questions

3.2 Significant adjusting journal entries

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Significant adjusting journal entries

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**Value
adjustment**

**Deferred
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3.2 Significant adjusting journal entries

Introductory case study

Case 17

After **Amy Angel** informed **Tommy TUMler** about the necessary adjusting journal entries, she continues preparing the financial statements. Therefore, she has the following information:

- 1) Remaining life of all machinery (simplification!!): 5 years
- 2) Depreciation method: linear
- 3) Remaining life of all tools (simplification!!): 4 years
- 4) Estimated selling price of goods for resale: 4,400 CU
- 5) Paying the rent for the following month (after reporting date) via bank transfer: 800 CU
- 6) Paying the interest on the bank loan for the following month (after reporting date) via bank transfer: 125 CU
- 7) Interest at the rate of 3% p.a. for the loan of the parents, i.e., 25 CU/month. Interest have not been paid yet.
- 8) For consulting services of the tax adviser **Toni Tax** during the start-up phase, fees of 200 CU are expected. A bill is still pending.

Question

How do the information have to be posted properly?

3.2 Significant adjusting journal entries

Introductory case study

Assets		Balance sheet (after stocktaking)				Liabilities					
D	Machinery (FA)	C	D	Tools (FA)	C	D	Withdrawals (EC)	C	D	Investments (EC)	C
	3,000			1,000			3,500				1,000
	1,500			2,000							9,000
	8,000			2,500							4,000
	6,000										9,500
											12,000
D	Raw materials	C	D	Supplies	C	D	Material exp.	C	D	Sales	C
	3,350			1,850			3,350	3,350			200
	2,550						2,550	2,550			2,535
	1,488						1,550	1,488			1,812
							1,850	1,850			
							2,850	2,850			
							4,750	3,800			
							6,450	4,515			
D	Consumables	C	D	Unfinished goods	C	D	Fees/Electricity	C	D	Interest	C
	2,850			3,800			800			125	
							100				
							500				
D	Bank/Cash	C	D	Goods for resale	C	D	Payables (DC)	C	D	Loans (DC)	C
	1,000	1,500		4,515				2,000			10,000
	9,000	3,500						8,000			20,000
	10,000	2,500						100			30,000
	20,000	6,000						3,350			
	30,000	500						6,450			
	9,500	800						4,750			
	12,000	125									
	200	2,550									
	2,535	1,550									
	1,812	1,850									
		2,850									

3.2 Significant adjusting journal entries

Introductory case study

Assets		Balance sheet (after stocktaking)				Liabilities	
D Machinery (FA) C		D Tools (FA) C		D Withdrawals (EC) C		D Investments (EC) C	
18,500		5,500		3,500			35,500
D Raw materials C		D Supplies C		D Material exp. C		D Sales C	
15,888		1,850		23,350	20,403		4,547
D Consumables C		D Unfinished goods C		D Fees/Electricity C		D Interest C	
2,850		3,800		1,400		125	
D Bank/Cash C		D Goods for resale C		D Payables (DC) C		D Loans (DC) C	
96,047	23,725	4,515			24,650		60,000

Materials = total of raw materials/supplies/consumables

3.2 Significant adjusting journal entries

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3.2 Significant adjusting journal entries

Definition "Depreciation"

-
- Tangible and intangible **fixed assets** may also cause a **decrease in value by time** and / or **use**. This decrease in value is presented for accounting purposes through depreciation. It represents a **loss in value**.
 - **Problem:** What amount and what method is the depreciation based on?
 - **Principle:** The amount of the depreciation has to be realistic and is has to come as close as possible to the actual loss in value.
 - **Generally:** Depreciation is defined by so-called (fiscal) depreciation tables
 - **Note:** Depreciation = expense = cash flow independent

3.2 Significant adjusting journal entries

Example

Assets		Balance sheet (after stocktaking)				Liabilities		
D	Machinery (FA)	C	D	Tools (FA)	C	D	Investments (EC)	C
	18,500	308		5,500	115			35,500
	Materials/ Unfinished goods	C	D	Goods for resale	C	D	Sales	C
	15,888			4,515				4,547
D	Bank/Cash	C				D	Interest	C
	96,047	23,725					125	
						D	Depreciation	C
							308	
							115	
						D	Payables (DC)	C
								24,650
						D	Loans (DC)	C
								60,000

Note:
 308 = $18,500 / 5 \text{ (years)} / 12 \text{ (months)}$ = depreciation per month
 115 = $5,500 / 4 \text{ (years)} / 12 \text{ (months)}$ = depreciation per month

3.2 Significant adjusting journal entries

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3.2 Significant adjusting journal entries

Definition "Value adjustments"

-
- For **current assets** value adjustments shall be made if the book value exceeds the time value. Otherwise, the financial situation would be presented properly. (using the so-called **strict lowest value principle**)
 - **Problem:** determining the "reference value" in form of time value
 - **Principle:** Using purchasing and/or selling prices

3.2 Significant adjusting journal entries

Example

Assets		Balance sheet (after stocktaking)				Liabilities					
D	Machinery (FA)	C	D	Tools (FA)	C	D	Withdrawals (EC)	C	D	Investments (EC)	C
	18,500	308		5,500	115		3,500			35,500	
D	Materials/ Unfinished goods	C	D	Goods for resale	C	D	Material exp.	C	D	Sales	C
	15,888			4,515	115		23,350	20,403		4,547	
D	Bank/Cash	C				D	Other expenses	C	D	Interest	C
	96,047	23,725					1,400			125	
							115				
						D	Depreciation	C			
							308				
							115				
						D	Payables (DC)	C	D	Loans (DC)	C
								24,650			60,000

Note:

The selling price is 115 CU below the book value □ value adjustment

3.2 Significant adjusting journal entries

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3.2 Significant adjusting journal entries

Definition "Deferred income and charges"

-
- Expenses/Income have to be recorded in the period in which they are assigned objectively – independent of the cash flows, otherwise the profit would be wrong.
 - These assets are recorded via so-called Deferred income or charges.
 - **Requirement:**
 - Cash inflow/outflow during the reporting period
 - Expense/income during the following period
 - "Deferrals" of income and expenses of the period must be distinguished of these cases, where there is no cash flow. These are to be recorded as Other liabilities or Other assets.

3.2 Significant adjusting journal entries

Example

Assets		Balance sheet (after stocktaking)				Liabilities	
D Machinery (FA) C		D Tools (FA) C		D Withdrawals (EC) C		D Investments (EC) C	
18,500	308	5,500	115	3,500			35,500
D Materials/ Unfinished goods C		D Goods for resale C		D Material exp. C		D Sales C	
15,888		4,515	115	23,350	20,403		4,547
D Bank/Cash C		D Deferred charges C		D Other expenses C		D Interest C	
96,047	23,725	800		1,400	800	125	125
	800	125		115		125	
	125			800		25	
				D Depreciation C			
				308			
				115			
				D Payables (DC) C		D Loans (DC) C	
					24,650		60,000
				D Other liabilities C			
					25		

Note:

Interests and rentals are payed in advance for the following month; i.e. cash flow during the reporting period, expense in the following one → Deferred charges

Interests for the parental loan originated during the reporting period, but no cash flow yet → Other liabilities

3.2 Significant adjusting journal entries

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3.2 Significant adjusting journal entries

Definition "Provisions"

-
- Debts of the company, created to third parties before or at the reporting date, which are not certain in amount or time of payment yet (e.g. the creditor's invoice is still missing), are recorded under the account Provisions. A failure to record these facts would lead to a wrong financial situation.
 - **Problem:** Estimating the proper amount.

3.2 Significant adjusting journal entries

Example

Assets		Balance sheet (after stocktaking)				Liabilities	
D Machinery (FA) C		D Tools (FA) C		D Withdrawals (EC) C		D Investments (EC) C	
18,500	308	5,500	115	3,500			35,500
D Materials/ Unfinished goods C		D Goods for resale C		D Material exp. C		D Sales C	
15,888		4,515	115	23,350	20,403		4,547
D Bank/Cash C		D Deferred charges C		D Other expenses C		D Interest C	
96,047	23,725	800		1,400	800	125	125
	800	125		115		125	
	125			800		25	
				200			
				D Depreciation C			
				308			
				115			
				D Payables (DC) C		D Loans (DC) C	
					24,650		60,000
				D Other liabilities C		D Provisions (DC) C	
					25		200

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Equity capital account closing**

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**Closing balance sheet and
Closing balance sheet account**

MC-Questions

3.3 Profit calculation and Equity account closing

Introductory case study

Case 18

Tommy TUMler is quite impatient and would like to know how much profit (and he is expecting nothing else than profit) his company earned in its first month. **Amy Angel** comforts him. Although she has already completed the year-end journal entries, she needs to balance the temporary accounts for the profit calculation.

Question

- 1) How does **Amy Angel** calculate the final result (=profit)?
- 2) Which role play withdrawals and investments accounts?

3.3 Profit calculation and Equity account closing

Example

Assets		Balance sheet (after stocktaking)				Liabilities	
D Machinery (FA) C		D Tools (FA) C		D Withdrawals (EC) C		D Investments (EC) C	
18,500	308	5,500	115	3,500			35,500
					Private accounts		
				D Material exp. C		D Sales C	
				23,350	20,403		4,547
D Materials/ Unfinished goods C		D Goods for resale C		D Other expenses C		D Interest C	
15,888		4,515	115	1,400	800	125	125
				115		125	
				800		25	
				200			
D Bank/Cash C		D Deferred charges C		D Depreciation C			
96,047	23,725	800		308			
	800	125		115			
	125						
				D Payables (DC) C		D Loans (DC) C	
					24,650		60,000
				D Other liabilities C		D Provisions (DC) C	
					25		200

3.3 Profit calculation and Equity account closing

Example

Assets		Balance sheet (after stocktaking)				Liabilities					
D	Machinery (FA)	C	D	Tools (FA)	C	D	Withdrawals (EC)	C	D	Investments (EC)	C
	18,500	308		5,500	115		3,500			35,500	
D	Materials/ Unfinished goods	C	D	Goods for resale	C	D	Material exp.	C	D	Sales	C
	15,888			4,515	115		23,350	20,403		4,547	
D	Bank/Cash	C	D	Deferred charges	C	D	Other expenses	C	D	Interest	C
	96,047	23,725		800			1,400	800		125	125
		800		125			115			125	
		125					800			25	
							200				
						D	Depreciation	C	Income & Expense accounts		
						308					
						115					
						D	Payables (DC)	C	D	Loans (DC)	C
								24,650			60,000
						D	Other liabilities	C	D	Provisions (DC)	C
								25			200

3.3 Profit calculation and Equity account closing

Closing the private accounts = Equity capital accounts

D	Withdrawals (EC)	C
	3,500	3,500

D	Investments (EC)	C
	35,500	35,500

Capital account (Interim account)		
D		C
	3,500	35,500
	32,000	

D	EC (without I&E)	C
		32,000

3.3 Profit calculation and Equity account closing

Closing the temporary accounts (Profit calculation) = Income&Expense

Material exp.		Sales		P&L Interim account		Income Statement in vertical form	
D	C	D	C	D	C		
23,350	20,403	4,547	4,547	2,947	4,547	Sales	4,547
	2,947				688	Material exp.	(-)2,947
Other expenses		Interest				Depreciation	(-)423
D	C	D	C			Other exp.	(-)1,715
1,400	800	125	125	423		Interest	(-)150
115	1,715	125	150	1,715			
800		25		150		Loss	- 688
200							
Depreciation		EC (without I&E)					
D	C	D	C				
308	423	688					
115							

3.3 Profit calculation and Equity account closing

Introductory case study

Assets		Balance sheet				Liabilities	
D Machinery (FA) C		D Tools (FA) C		D Withdrawals (FE) C		D Investments (FE) C	
18,500	308	5,500	115	3,500			35,500
D Materials/ Unfinished goods C		D Goods for resale C		D Material exp. C		D Sales C	
15,888		4,515	115	23,350	20,403		4,547
D Bank/Cash C		D Deferred charges C		D Other expenses C		D Interest C	
96,047	23,725	800		1,400	800		125
	800	125		115	20,403		125
	125			500			25
				200			
				D Depreciation C			
				308			
				115			
				D Payables (DC) C		D Loans (DC) C	
					24,650		60,000
				D Other liabilities C		D Provisions (DC) C	
					25		200

3.3 Profit calculation and Equity account closing

Introductory case study

Assets		Balance sheet				Liabilities	
D Machinery (FA) C		D Tools (FA) C		D Withdrawals (EC) C		D Investments (EC) C	
18,500 308		5,500 115		3,500		35,500	
D Materials/ Unfinished goods C		D Goods for resale C		D Material exp. C		D Sales C	
15,888		4,515 115		23,350 20,400		4,547	
D Bank/Cash C		D Deferred charges C		D Other e		D Equity capital C	
96,047 23,725		800 125		1,400		688 32,000	
				115			
				800			
				200			
				D Depreciation C		D Interest C	
				308		125	
				115			
				D Payables (DC) C		D Loans (DC) C	
				24,650		60,000	
				D Other liabilities C		D Provisions (DC) C	
				25		200	

Basic concepts of year-end closings

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3.4 Closing balance sheet and Closing balance sheet account

Creating the closing balance sheet

Assets		Balance sheet		Liabilities	
D	Machinery (FA)	C	D	Tools (FA)	C
	18,500	308		5,500	115
		CB 18,192			CB 5,385
D	Materials/ Unfinished goods	C	D	Goods for resale	C
	15,888	CB 15,888		4,515	115
					CB 4,400
D	Bank/Cash	C	D	Deferred charges	C
	96,047	23,725		800	CB 925
		800		125	
		125			
		CB 71,397			
D	Equity capital	C	D	Payables (DC)	C
	688	32,000		CB 24,650	24,650
	CB 31,312				
D	Other liabilities (DC)	C	D	Loans (DC)	C
	CB 25	25		CB 60,000	60,000
D	Provisions (DC)	C			
	CB 200	200			

3.4 Closing balance sheet and Closing balance sheet account

Creating the closing balance sheet

Debit	Closing balance sheet account (auxiliary account)		Credit
Fixed assets		Equity Capital	31,312
Machinery	18,192		
Tools	5,385		
	23,577		
Current assets		Debt capital	
Materials / Unfinished goods	15,888	Provisions	200
Goods for resale	4,400	Payables from supplies & services	24,650
Bank	71,397	Loans	60,000
	91,685	Other liabilities	25
			84,875
Deferred charges	925		
	116,187		116,187

3.4 Closing balance sheet and Closing balance sheet account

Creating the closing balance sheet

Assets	Closing balance sheet		Liabilities
Fixed assets		Equity capital	31,312
Machinery	18,192		
Tools	5,385		
	23,577		
Current assets		Debt capital	
Materials / Unfinished goods	15,888	Provisions	200
Goods for resale	4,400	Payables from supplies & services	24,650
Bank	71,397	Loans	60,000
		Other liabilities	25
	91,685		84,875
Deferred charges	925		
Total	116,187	Total	116,187

3.4 Closing balance sheet and Closing balance sheet account

Creating the closing balance sheet

Assets	Closing balance sheet (compact)		Liabilities
Fixed assets	23,577	Equity capital	31,312
Current assets (inkl. Deferred charges)	92,610	Debt capital	84,875
Total	116,187	Total	116,187

Overview

Basic concepts of year-end closings			
1	Basics	5	Opening balance sheet and Opening balance sheet account
2	Significant adjusting journal entries	6	Books and Bookkeeping
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3.5 Opening balance sheet and Opening balance sheet account

Introductory case study

Case 20

While **Tommy TUMler** returns exhausted from a bike tour, **Amy Angel** is exhausted as well after finalizing the final financial statement. Both of them are happy after their first entrepreneurial month, although they created a loss in the end.

But as the saying goes: New game, new chance. What happens next?

Question

What is an opening balance sheet and how is it created for accounting purposes?

3.5 Opening balance sheet and Opening balance sheet account

Definition Opening balance sheet

-
- The previous year's closing balance sheet is identical with the following year's opening balance sheet (so-called formal balance sheet identity)
 - Closing balance sheet: e.g. 31.12.X, 23.59.59
 - Opening balance sheet: 01.01.X+1, 0.00.01
- } Logical (legally) second

3.5 Opening balance sheet and Opening balance sheet account

Previous year's closing balance sheet

Assets	Closing balance sheet (compact)		Liabilities
Fixed assets	23,577	Equity capital	31,312
Current assets (incl. Deferred charges)	92,610	Debt capital	84,875
Total	116,187	Total	116,187

3.5 Opening balance sheet and Opening balance sheet account

Previous year's closing balance sheet

Assets	Closing balance sheet (compact)		Liabilities
Fixed assets	23,577	Equity capital	31,312
Current assets (incl. Deferred charges)	92,610	Debt capital	84,875
Total	116,187	Total	116,187

3.5 Opening balance sheet and Opening balance sheet account

Previous year's closing balance sheet account

Assets	Closing balance sheet account (compact)		Liabilities
Fixed assets	23,577	Equity capital	31,312
Current assets (incl. Deferred charges)	92,610	Debt capital	84,875

3.5 Opening balance sheet and Opening balance sheet account

Previous year's closing balance sheet account

Assets	Closing balance sheet account (compact)		Liabilities
Fixed assets	23,577	Equity capital	31,312
Current assets (incl. Deferred charges)	92,610	Debt capital	84,875

3.5 Opening balance sheet and Opening balance sheet account

Closing balance sheet = Following year's opening balance sheet

Assets	Opening balance sheet account (compact)		Liabilities
Fixed assets	23,577	Equity capital	31,312
Current assets (incl. Deferred charges)	92,610	Debt capital	84,875

3.5 Opening balance sheet and Opening balance sheet account

Balance split for creating the T-accounts

Opening balance sheet account (compact)				Opening balance sheet account					
Debit		Credit		Debit			Credit		
Fixed assets	23,577	Equity capital	31,312	D	FA	C	D	EC	C
				(OB) 23,577				(OB) 31,312	
Current assets (incl. Deferred charges)	92,610	Debt capital	84,875	D	CA	C	D	DC	C
				(OB) 92,610				(OB) 84,875	
Equity capital	31,312	Fixed assets	23,577						
Debt capital	84,875	Current assets	92,610						

3.5 Opening balance sheet and Opening balance sheet account

Comprehension question about liabilities

Question

1. What happens to the private accounts?
2. What happens to the temporary accounts?

Solution

Both the private and the temporary accounts (P&L accounts) are of course also created, but without opening balance. Reason: These accounts are sub-accounts of the equity capital account and were balanced to zero at the year-end closings of the previous year to the equity account and thereby dissolved.

Remember:

Only the permanent accounts (balance sheet accounts) have - as the name implies - an opening balance

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Books and Bookkeeping

MC-Questions

3.6 Books and Bookkeeping

Journal, Accounts and General ledger

Journal

- All journal entries are listed in chronological order
- Minimum content: date, document memo, posting text, journal entries, amount

General ledger

- Entirety of all accounts of the company (permanent and temporary accounts)
- Minimum content: like the journal, additional contra account, amount in Debit or Credit

Subsidiary (=ancillary) books of account

- Outside of the account system books to split accounts further
- Example: Current accounts, payroll accounts

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MC-Questions



Thank you
for listening



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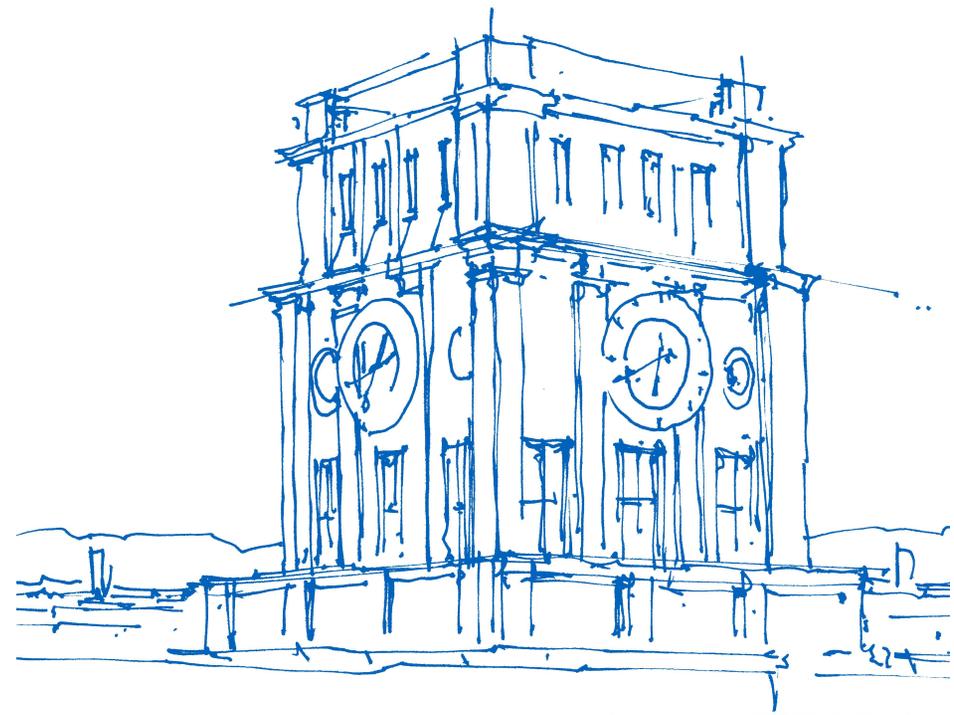
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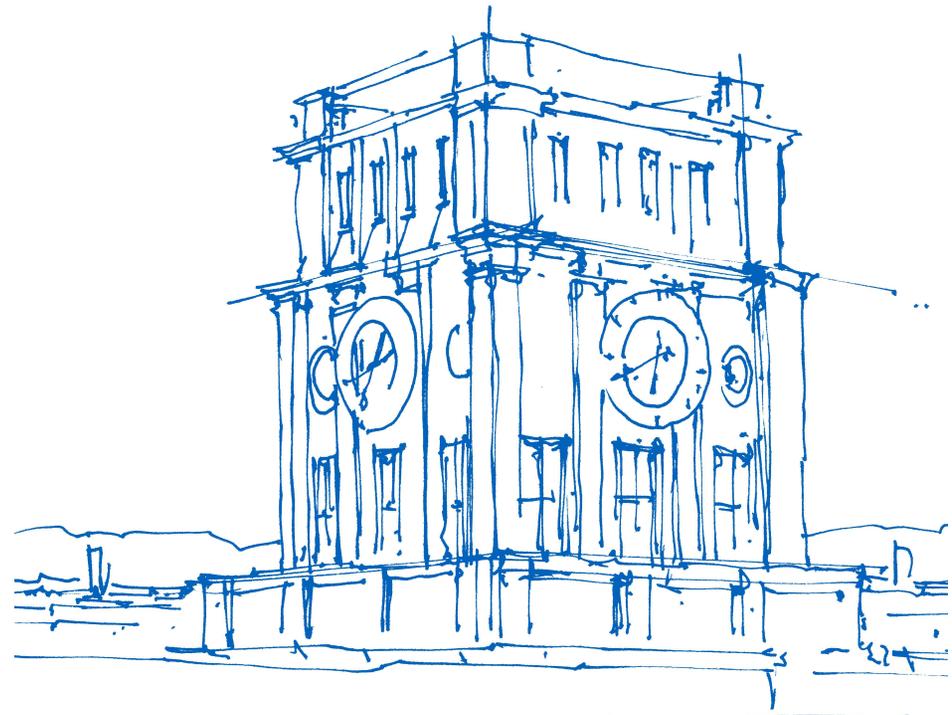
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Uhrenturm der TUM

MC-Questions



Uhrenturm der TUM



MC-Questions on Chapter 1

3 Questions

1 Introduction

Who has to keep books?

- A) Every merchant.
- B) Merchants, who are below the criteria of §241a HGB.
- C) Only companies, which exceed the criteria of §241a HGB.

D) Every merchant except individual merchants, who are below the criteria of § 241a HGB.

Artist Picasso, who is not registered in the commercial register does not have to keep books because he...

- A) is a “merchant by definition”.
- B) is below the size criteria of §241a HGB.

C) is a freelance professional.

D) runs a company but no commercial business after all.

3 Questions

1 Introduction

Who has to keep books?

- A) Skittels club „Gut Holz”
- B) Graveyard „Zur letzten Ruhe”
- C) Chartered accountant Bernd Grottel

D) Tree farm „Deutsche Eiche” (registered in commercial register)

Who has to keep books?

- A) Lawyer Ludwig Sorgenfrei
- B) „Arge” Landverschönerung

C) Fast-treck KGaA

D) GbR Wörmer

3 Questions

1 Introduction

Who does not have to keep books?

- A) Geldgierbank Schleiden eG
- B) Whiskey-distillery Resi Schluckspecht
- C) Eifel AG

D) Dentist Egon Tutnichtweh

Who does not have keep books?

A) Anton Stiller as a silent partner

- B) Hotel Cosy Rest (registered in commercial register)
- C) Carpe Diem GmbH
- D) Schnöller OHG (registered in commercial register)

3 Questions

1 Introduction

Who has to keep books below?

- A) A freelance architect employs 10 architects as well as 15 technical drawers. Annual revenue amounts to approximately 2,5 Mio. €.
- B) A kiosk owner realizes an annual revenue of 120,000 € and an annual profit of 20,000 €
- C) Another kiosk owner realizes an annual revenue of 80,000 € and an annual profit of 9,000 €. His kiosk is registered in commercial register.

D) A carpenter employs 50 employees. Fixed assets amount to 500,000 €, annual revenue amounts to 3,5 Mio. €.

For whom of the persons mentioned above does § 241a HGB apply, assuming the numbers apply for two consecutive financial years?

- A) Only A) and B)
- B) Only B)

C) Only B) and C)

- D) Only C)

3 Questions

1 Introduction

Background information

Businessman Mr. Schneider has operated his commercial enterprise for a long time. In the past years he realized annual revenues and annual profits as follows:

Year 10:	Profit	58,000 €	- Revenue	592,000 €
Year 11:	Profit	81,000 €	- Revenue	598,000 €
Year 12:	Profit	60,000 €	- Revenue	600,000 €
Year 13:	Profit	58,000 €	- Revenue	596,000 €

Mr. Schneider wishes to quit bookkeeping in terms of commercial law as soon as possible. Which is the earliest date possible?

- A) Year 11
- B) Year 12
- C) Year 13
- D) Year 14**

3 Questions

1 Introduction

Explanation

Businessman Mr. Schneider has operated his commercial enterprise for a long time. In the past years he realized annual revenues and annual profits as follows:

Year 10:	Profit	58,000 €	- Revenue	592,000 €
Year 11:	Profit	81,000 €	- Revenue	598,000 €
Year 12:	Profit	60,000 €	- Revenue	600,000 €
Year 13:	Profit	58,000 €	- Revenue	596,000 €

Mr. Schneider wishes to quit bookkeeping in terms of commercial law as soon as possible. Which is the earliest date possible?

Earliest possible date for businessman Mr. Schneider to quit bookkeeping in terms of commercial law is year 14. Both of the criteria denoted in § 241a HGB are initially met consecutively in the years 12 and 13 (in year 12 exactly). Indeed the criteria have been met in year 10 as well, but this is only onetime, since profit in year 11 exceeds relevant limit.

3 Questions

1 Introduction

Small business owner Mr. Schulze has been exempted from the obligation to keep books, since he has come below the criteria of §241a HGB until now. In year 10 he has realized a fiscal profit of 78,000 € and fiscal revenues of 785,000 €. If he was subject to the duty of keeping books, he still would have to take receivables totaling 32,000 € into account. This however would lead to higher revenues. According to net fiscal income method receivables are not taken into account. The receivables contain a share in profits of 10,000 €. How to proceed further in year 11?

- A) Mr. Schulze does **not** exceed the limitations of § 241a HGB and therefore does **not** have to keep books.
- B) Mr. Schulze already should have kept books in year 10.

C) Mr. Schulze has to keep books starting in year 11.

- D) Mr. Schulze has to keep books starting in year 12, since criteria of §241a HGB have to be exceeded in two consecutive years.

Explanation

Commercial law criteria are the benchmark for the duty to keep books:

Sales revenue_{Total} = 785,000 € + 32,000 € = 817,000 € > 800,000 € => criterion exceeded

(Commercial) Profit = 78,000 € + 10,000 € = 88,000 € > 80,000 € => criterion exceeded as well

As of year 11: Obligation to keep postings including preparation of financial statements

Note: A single transgression would have been sufficient as well.

3 Questions

1 Introduction

Who needs to be appointed for a company being able to be legally represented?

- A) Tax advisor
- B) Managing director**
- C) Public accountant
- D) Owner

Who is entitled to appoint the management?

- A) Owners**
- B) Employees
- C) Creditors
- D) Suppliers

3 Questions

1 Introduction

What do you call the account of a company used to process its monetary transactions?

- A) Investment account
- B) Private account
- C) Liability account

D) Commercial account

What's the technical term for all the debts of a company?

- A) Assets
- B) Provisions
- C) Liabilities**
- D) Credits

3 Questions

1 Introduction

The side of the balance sheet, which includes equity and debt is called...

- A) Asset side
- B) Capital side
- C) Liabilities side**
- D) Debt side

The side of the balance sheet, which includes the company's assets is called...

- A) Asset side**
- B) Capital side
- C) Liabilities side
- D) Debt side

3 Questions

1 Introduction

Who of the below persons is not a creditor?

- A) A supplier from whom the company has bought goods on credit.
- B) A Bank which has granted the company a bank loan.
- C) A customer whom the company has sold goods on credit.**
- D) An owner who has granted the company a loan.

If a person goes to the commercial trade office and registers a company, this company has...

- A) Liabilities
- B) Debt
- C) Equity
- D) No capital**

3 Questions

1 Introduction

What do you call persons besides the owners of a company who provide capital to this company?

A) Sponsors

B) Creditors

C) Debtors

D) Donors

If a supplier grants a suppliers credit to a customer for a certain period of time this period of time granted is called:

A) Credit line

B) Target agreement

C) Time of payment

D) Free kick

3 Questions

1 Introduction

If a bank grants a customer a bank loan over a certain period of time, this is called a ...

A) Credit line

B) Target agreement

C) Time of payment

D) Free kick

What is the technical term when a company purchases assets in order to work with it ?

A) Depreciation

B) Valuation

C) Investment

D) Financial statements

3 Questions

1 Introduction

How to call capital, provided by the creditors of a company?

- A) Equity
- B) Risk capital
- C) Loss capital
- D) Debt**

How to call a transaction in which the owners of a company provide capital to their company?

- A) Capital investment**
- B) Transfer
- C) Capital withdrawal
- D) Credit

3 Questions

1 Introduction

Money invested by owners in their company is called...

- A) Loss capital
- B) Credit
- C) Equity capital**
- D) Asset deposit

Someone providing capital to a company without being its owner is referred to as:

- A) Firm
- B) User
- C) Debtor
- D) Creditor**

3 Questions

1 Introduction

What do you call the capital provided by owners to their company?

A) Equity capital

B) Risk capital

C) Loss capital

D) Debt

3 Questions

1 Introduction

Select the **wrong** answer:

- A) A positive final result (net income) increases equity.
- B) A negative final result (net loss) decreases equity.
- C) A negative final result increases debt.**
- D) The final result has no influence on debt.

Select the correct answer:

- A) Equity in 02 is the sum of equity of 01 and net income of 01.**
- B) Equity in 02 is the difference of equity of 01 and net income of 01.
- C) Equity in 02 is the sum of equity of 00 and net income of 01.
- D) Equity in 01 solely consists of net income of 00.



MC-Questions on Chapter 2

3 Questions

2 Basic concepts of bookkeeping

A business transaction changes a company's...

A) Financial situation

- B) Percent share
- C) Managing director
- D) Products

Who is entitled to appoint the management?

A) Owners

- B) Employees
- C) Creditors
- D) Suppliers

3 Questions

2 Basic concepts of bookkeeping

“A business transaction has two impacts from a commercial point of view“. This statement...

- A) Never applies.
- B) Applies to capital investments.
- C) Applies to loans.
- D) Always applies.**

An event causing a change in the financial situation of a company is called a...

- A) Balance event.
- B) Business transaction.**
- C) Firm event.
- D) Company event.

3 Questions

2 Basic concepts of bookkeeping

Double-entry bookkeeping considers the business transactions from the perspective of...

- A) Owners.
- B) Companies.**
- C) Creditors.
- D) Accountants.

What do you call fixed assets, current assets, equity and debt in general?

- A) Total assets
- B) Balance sheet items**
- C) Capital stock
- D) Financial situation

3 Questions

2 Basic concepts of bookkeeping

How many commercial impacts does a business transaction have at least ?

A) 1

B) 2

C) 3

D) 4

Which balance sheet items are designed with T-accounts?

A) All

B) None

C) Asset-side only

D) Liabilities-side only

3 Questions

2 Basic concepts of bookkeeping

What exactly is recorded on a T-account?

- A) Additions only
- B) Subtractions only
- C) Additions and subtractions**
- D) Neither nor

What happens to the equity in case of a withdrawal?

- A) It decreases.**
- B) Nothing.
- C) It increases.
- D) All of it.

3 Questions

2 Basic concepts of bookkeeping

What happens to the bank account when purchasing goods on credit?

A) It decreases.

B) Nothing.

C) It increases.

D) All of it.

What happens to the equity in case of a capital investment?

A) It decreases.

B) Nothing.

C) It increases.

D) All of it.

3 Questions

2 Basic concepts of bookkeeping

What happens to the debt account when a machinery is bought and paid in cash?

A) It decreases.

B) Nothing.

C) It increases.

D) All of it.

From the balance sheet point of view the debit side regarding fixed assets is...

A) on top.

B) at the bottom.

C) at the outside.

D) at the inside.

3 Questions

2 Basic concepts of bookkeeping

Fixed assets are increasing...

A) on debit side.

B) on credit side.

C) on the closing balance.

D) not at all.

The account 'fixed assets' was booked on credit side. Thus, fixed assets have...

A) increased.

B) decreased.

C) remained equal.

D) All of it.

3 Questions

2 Basic concepts of bookkeeping

What happens to fixed assets when a machine is bought and paid in cash?

- A) It decreases.
- B) Nothing.
- C) It increases.**
- D) All of it.

From the balance sheet point of view the debit side regarding current assets is...

- A) on top.
- B) at the bottom.
- C) at the outside.**
- D) at the inside.

3 Questions

2 Basic concepts of bookkeeping

From the balance sheet point of view the debit side regarding equity is...

- A) on top.
- B) at the bottom.
- C) at the outside.
- D) at the inside.**

From the balance sheet point of view the debit side regarding debt is...

- A) on top.
- B) at the bottom.
- C) at the outside.
- D) at the inside.**

3 Questions

2 Basic concepts of bookkeeping

From the balance sheet point of view the credit side regarding fixed assets is...

- A) on top.
- B) at the bottom.
- C) at the outside.
- D) at the inside.**

From the balance sheet point of view the credit side regarding current assets is...

- A) on top.
- B) at the bottom.
- C) at the outside.
- D) at the inside.**

3 Questions

2 Basic concepts of bookkeeping

From the balance sheet point of view the credit side regarding equity is...

- A) on top.
- B) at the bottom.
- C) at the outside.**
- D) at the inside.

From the balance sheet point of view the credit side regarding debt is...

- A) on top.
- B) at the bottom.
- C) at the outside.**
- D) at the inside.

3 Questions

2 Basic concepts of bookkeeping

Current assets are increasing...

A) on debit side.

B) on credit side.

C) on the closing balance.

D) not at all.

Equity is increasing...

A) on debit side.

B) on credit side.

C) on the closing balance.

D) not at all.

3 Questions

2 Basic concepts of bookkeeping

Debt is increasing...

A) on debit side.

B) on credit side.

C) on the closing balance.

D) not at all.

Fixed assets are decreasing...

A) on debit side.

B) on credit side.

C) on the closing balance.

D) not at all.

3 Questions

2 Basic concepts of bookkeeping

Current assets are decreasing...

A) on debit side.

B) on credit side.

C) on the closing balance.

D) not at all.

Equity is decreasing...

A) on debit side.

B) on credit side.

C) on the closing balance.

D) not at all.

3 Questions

2 Basic concepts of bookkeeping

Debt is decreasing...

A) on debit side.

B) on credit side.

C) on the closing balance.

D) not at all.

The account 'current assets' was booked on credit side. Thus, current assets have...

A) increased.

B) decreased.

C) remained equal.

D) All of it.

3 Questions

2 Basic concepts of bookkeeping

The account 'equity' was booked on credit side. Thus equity has...

A) increased.

B) decreased.

C) remained equal.

D) All of it.

The account 'debt' was booked on credit side. Thus debt has...

A) increased.

B) decreased.

C) remained equal.

D) All of it.

3 Questions

2 Basic concepts of bookkeeping

The account 'current assets' was booked on debit side. Thus current assets have...

A) increased.

B) decreased.

C) remained equal.

D) All of it.

The account 'debt' was booked on debit side. Thus debt have...

A) increased.

B) decreased.

C) remained equal.

D) All of it.

3 Questions

2 Basic concepts of bookkeeping

The account 'equity' was booked on debit side. Thus equity has ...

A) increased.

B) decreased.

C) remained equal.

D) All of it.

The account 'fixed assets' was booked on debit side. Thus fixed assets have...

A) increased.

B) decreased.

C) remained equal.

D) All of it.

3 Questions

2 Basic concepts of bookkeeping

On a T-account there are 4 entries on debit side with an amount of 2,000 € each and another 8 entries on credit side with an amount of 1,500 € each. What is the correct type of balance and what value does it have?

A) Debit balance of 4,000 €

B) Credit balance of 4,000 €

C) Debit balance of 8,000 €

D) Credit balance of 8,000 €

On a T-account there are 8 entries on debit side with an amount of 1,500 € each and another 4 entries on credit side with an amount of 2,000 € each. What is the correct type of balance and what value does it have?

A) Debit balance of 4,000 €

B) Credit balance of 4,000 €

C) Debit balance of 8,000 €

D) Credit balance of 8,000 €

3 Questions

2 Basic concepts of bookkeeping

On a T-account there are 5 entries on debit side with an amount of 1,000 € each and another 10 entries on credit side with an amount of 2,000 € each. What is the correct type of balance and what value does it have?

A) Debit balance of 15,000 €

B) Credit balance of 15,000 €

C) Debit balance of 20,000 €

D) Credit balance of 20,000 €

On a T-account there are 10 entries on debit side with an amount of 2,000 € each and another 5 entries on credit side with an amount of 1,000 € each. What is the correct type of balance and what value does it have?

A) Debit balance of 15,000 €

B) Credit balance of 15,000 €

C) Debit balance of 20,000 €

D) Credit balance of 20,000 €

3 Questions

2 Basic concepts of bookkeeping

What is the technical term for the second account on which a business transaction is posted?

- A) Antagonist accounting
- B) Counterpart
- C) Second account
- D) Contra account**

Postings are always made in the form of a journal entry...

- A) credit to credit.
- B) credit to debit.
- C) debit to credit.**
- D) debit to debit.

3 Questions

2 Basic concepts of bookkeeping

Postings that affect profit or loss, are called...

- A) successful.
- B) prosperous.
- C) income affecting.**
- D) non income affecting.

Income is a(n)...

- A) depreciation.
- B) increase in value.**
- C) value loss.
- D) decrease in value.

3 Questions

2 Basic concepts of bookkeeping

Income and profit are ... the same.

A) always

B) never

C) frequently

D) sometimes

Expense and loss are ... the same.

A) always

B) never

B) never

D) sometimes

Note

Income is the increase in value added by a single business transaction.
Profit only is generated if total income > total expenses.

3 Questions

2 Basic concepts of bookkeeping

Expense is a/an...

- A) depreciation.
- B) increase in value.
- C) value gain.

D) decrease in value.

A business transaction which represents a depreciation (expense) is booked on (a) ...

- A) private account.
- B) profit and loss account.**
- C) real account.
- D) none of these accounts.

3 Questions

2 Basic concepts of bookkeeping

A business transaction which represents an increase in value is posted on (a)...

A) private account.

B) profit and loss account.

C) real account.

D) none of these accounts.

A business transaction is posted on the credit side of a profit and loss account. Thus, it is a(n)...

A) income.

B) expense.

C) withdrawal.

D) investment.

3 Questions

2 Basic concepts of bookkeeping

A business transaction is posted on the debit side of a profit and loss account. Thus, it is a(n)...

- A) income.
- B) expense.**
- C) withdrawal.
- D) investment.

A business transaction is posted on the credit side of a private account . Thus, it is a(n)...

- A) income.
- B) expense.
- C) withdrawal.
- D) investment.**

3 Questions

2 Basic concepts of bookkeeping

A business transaction is posted on the debit side of a private account. Thus, it is a(n)...

A) income.

B) expense.

C) withdrawal.

D) investment.

Which business transaction does affect an equity subaccount?

A) Purchase of material in cash.

B) Credit Repayment.

C) Interest payment.

D) Payment to supplier.

3 Questions

2 Basic concepts of bookkeeping

Which business transaction does affect an inventories subaccount?

A) Purchase of materials in cash.

B) Credit repayment.

C) Interest payment.

D) Payment to supplier.

Which business transaction does affect a liabilities subaccount?

A) Purchase of materials in cash.

B) Loan repayment.

C) Cash investment of 200 €.

D) Purchase of a building.

3 Questions

2 Basic concepts of bookkeeping

Which business transaction does affect a fixed assets subaccount?

- A) Purchase of materials in cash.
- B) Credit repayment.
- C) Interest payment.

D) Purchase of a building.

Which business transaction does **not** affect any equity subaccount?

- A) Salary payment.
- B) Cash withdrawal.

C) Purchase of materials on credit.

D) Interest payment.

3 Questions

2 Basic concepts of bookkeeping

Which business transaction does **not** affect any liabilities subaccount?

A) Purchase of materials in cash.

B) Credit repayment.

C) Borrowing cash from the owner.

D) Payment to supplier.

Which business transaction does **not** affect any fixed assets subaccount?

A) Scheduled depreciation.

B) Unscheduled depreciation of machinery.

C) Purchase of machinery.

D) Purchase of wooden planks.

3 Questions

2 Basic concepts of bookkeeping

Which business transaction does **not** affect any current assets subaccount?

A) Purchase of machinery on credit.

B) Purchase of raw material.

C) Sale of goods to customers.

D) Payment from customers.

3 Questions

2 Basic concepts of bookkeeping

Income and expenses are posted on...

A) private accounts.

B) profit and loss accounts.

C) debit accounts.

D) other accounts.

Investments and withdrawals are posted on...

A) private accounts.

B) profit and loss accounts.

C) debit accounts.

D) other accounts

3 Questions

2 Basic concepts of bookkeeping

Material accounts belong to...

A) fixed assets.

B) equity.

C) current assets.

D) debt.

The account 'factory equipment' belongs to...

A) fixed assets.

B) equity.

C) current assets.

D) debt.

3 Questions

2 Basic concepts of bookkeeping

The business transaction “purchase of materials on credit” results in...

A) increasing debt.

B) decreasing debt.

C) increasing equity.

D) decreasing equity.

The business transaction ‘repayment of a loan’ results in...

A) increasing debt.

B) decreasing debt.

C) increasing equity.

D) decreasing equity.

3 Questions

2 Basic concepts of bookkeeping

The business transaction 'depreciation of a building' results in...

- A) increasing debt.
- B) decreasing debt.
- C) increasing equity.
- D) decreasing equity.**

The business transaction 'cash investment of 1,000 €' results in...

- A) increasing debt.
- B) dedreasing debt.
- C) increasing equity.**
- D) decreasing equity.

3 Questions

2 Basic concepts of bookkeeping

If an amount of 4,000 € is posted on the credit side of a material account, the stock of materials...

A) decreases.

B) increases.

C) remains equal.

D) All of it.

If an amount of 4,000 € is posted on the debit side of a material account, the stock of materials...

A) decreases.

B) increases.

C) remains equal.

D) All of it.

3 Questions

2 Basic concepts of bookkeeping

If an amount of 1,000 € is posted on the credit side of a private account, equity...

A) decreases.

B) increases.

C) remains equal.

D) All of it.

If an amount of 1,000 € is posted on the debit side of a private account, equity...

A) decreases.

B) increases.

C) remains equal.

D) All of it.

3 Questions

2 Basic concepts of bookkeeping

The method to determine deviation between book values and reality is called...

- A) inquisition.
- B) investigation.
- C) inventory-taking.**
- D) inventory register.

3 Questions

2 Basic concepts of bookkeeping

Book printer Otto Müller starts running his commercial business on 01.04.01. At this point of time his equity amounts to 200,000 € whereas liabilities do not exist. On 31.12.01 he prepares his financial statements. For the year 01 his income is 220,000 € and his expenses are 130,000 €. Moreover equity was only modified by operational processes. What is the net income of the financial year?

A) 200,000 €.

B) 90,000 €.

C) 290,000 €.

D) 220,000 €.

Same setting as above. Where to report the financial year's net income?

A) Balance sheet.

B) Profit and loss-statement.

C) Notes.

D) Cash Flow statement.

3 Questions

2 Basic concepts of bookkeeping

Book printer Otto Müller starts running his commercial business on 01.04.01. At this point of time his equity amounts to 200,000 € whereas liabilities do not exist. On 31.12.01 he prepares his financial statements. For the year 01 his income is 220,000 € and his expenses are 130,000 €. Moreover equity was only modified by operational processes. What are the net assets (= equity) at the end of the financial year?

- A) 200,000 €.
- B) 90,000 €.
- C) 290,000 €.**
- D) 220,000 €.

Same setting as above. Where to report the financial year's net income?

- A) Balance sheet**
- B) Profit and loss-statement.
- C) Notes.
- D) Cash Flow statement.

3 Questions

2 Basic concepts of bookkeeping

Book printer Otto Müller starts running his commercial business on 01.04.01. At this point of time his equity amounts to 200,000 € whereas liabilities do not exist. On 31.12.01 he prepares his financial statements. For the year 01 his income is 220,000 € and his expenses are 130,000 €. Moreover equity was only modified by operational processes. Is there any increase or decrease of net assets and what is the amount involved if any?

A) Increase of net assets of 220,000 €.

B) Increase of net assets of 90,000 €.

C) Decrease of net assets of 130,000 €.

D) Decrease of net assets of 290,000 €.

3 Questions

2 Basic concepts of bookkeeping

Select the **wrong** answer!

- A) The balance sheet is a period calculation, eg. for the period of 1.1.XX until 31.12.XX.
- B) The profit and loss statement is a period calculation, e.g for the period of 1.1.XX until 31.12.XX.
- C) The cash flow statement is a period calculation, e.g for the period of 1.1.XX until 31.12.XX.
- D) The equity analysis is a period calculation, e.g for the period of 1.1.XX until 31.12.XX.

3 Questions

2 Basic concepts of bookkeeping

Financial accounting does **not** include:

- A) Accounts payable.
- B) Payroll accounting.
- C) Assets accounting.

D) Forecast accounting.

Accounts receivable record...

- A) business transactions with suppliers.
- B) wage and salary accounts for each employee.
- C) value changes, additions and disposals of assets.

D) business transactions with customers.



MC-Questions on Chapter 3

3 Questions

2 Basic concepts of year-end closings

Depreciation will be borne by...

- A) creditors.
- B) owners.**
- C) employees.
- D) customers.

Depreciation causes...

- A) cash outflow.
- B) cash inflow.
- C) equity reduction.**
- D) equity increase.

3 Questions

2 Basic concepts of year-end closings

Uniform annual depreciation is called...

A) degressive depreciation.

B) linear depreciation.

C) bipolar depreciation.

D) suggestive depreciation.