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**ACCOUNTING**

**TEXTBOOK**

**for full-time students of the specialty**

**1-25 01 07 «Economics and management at the enterprise»**

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Theoretical and legal aspects of the organization and maintenance of accounting are presented. Methods of accounting for certain types of assets, liabilities, income, expenses and equity of an industrial enterprise are considered.

For students of the specialty 1-25 01 07 «Economics and management at the enterprise»

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## INTRODUCTION

Accounting is one of the management functions and a means of monitoring the activities of enterprises. It occupies one of the leading places in the system of training specialists in economics.

The purpose of students studying the discipline «Accounting» is to master the fundamentals of accounting theory, acquire theoretical knowledge, practical skills in organizing and maintaining accounting records.

The main purpose of the manual in the discipline «Accounting» is to assist students in the consistent study of the theoretical and practical aspects of organizing and maintaining accounting at an enterprise.

The textbook was developed in accordance with the curriculum of the discipline «Accounting» for students of specialty 1-25 01 07 « Economics and management at the enterprise ».

The textbook includes the text of lectures on the topics specified in the program of the discipline «Accounting» and a list of recommended literature. The use of the manual in the educational process will allow students to obtain a set of knowledge and skills necessary for successful accounting at an enterprise, taking into account the achievements of modern economic science.

## **TOPIC 1. ACCOUNTING AND ITS PLACE IN THE SYSTEM OF MANAGEMENT OF THE ORGANIZATION'S ACTIVITIES**

### **1. The role of accounting in enterprise management and its types**

Economic accounting is a system of quantitative reflection and qualitative characteristics of the economic activities of an organization for the purpose of control and effective management of it.

The purpose of economic accounting is manifested in the fact that through observation, measurement, registration and generalization of information about the facts of economic life, data that is used to manage the economic activities of the organization is systematized.

Management functions are largely associated with receiving, processing and transmitting information. The sequence of performance of management functions is as follows: planning in the current period – accounting – analysis and regulation – planning in the future period.

Planning in the current period consists of forming a sequence of actions, the implementation of which in the future will allow achieving a previously set goal. The result of planning is the determination of the goals of the management object, planned indicators, resources, etc.

Accounting allows you to generate information about the economic activities of the management object, necessary for the preparation, justification and adoption of management decisions at various levels. The result of accounting is a list of indicators reflecting the actual results of the functioning of the management object and its property status.

Analysis makes it possible to identify and measure the influence of factors that cause a deviation of the actual results of the control object from the planned ones. The result of the analysis is the adoption of management decisions aimed at revising plans.

Regulation makes it possible to eliminate deviations of the actual state of the controlled object from the planned one identified through control. The result of regulation is information about the effectiveness of the management body's recommendations to the managed object to eliminate undesirable deviations as a basis for planning in the future period.

To comprehensively reflect the economic activities of an organization, various types of economic accounting are used: operational, accounting, statistical.

Operational accounting is used to monitor, control and obtain information about individual business processes as soon as possible after their

completion. It is used to quickly obtain information necessary for the current operational management of the organization's economic activities. Accounting is maintained by employees of departments within a workshop, department, or service. In operational accounting, natural and labor meters are mainly used.

Accounting is an orderly system of collecting, registering and summarizing in monetary terms information about the state and changes in assets, equity capital, liabilities, income and expenses of an organization through a continuous, continuous and documentary reflection of all business transactions. In accounting, business activities are recorded using all types of meters. Summarization of data in financial statements is carried out in a single monetary measure.

Statistical accounting serves to systematize data on mass economic processes on the scale of a state, industry, region in order to study, generalize and clarify patterns in their development. Statistics collects and summarizes information about the state of the economy, trends in its development in the form of censuses, statistical reporting, continuous and sample surveys. In this case, operational and accounting data are used using all types of meters.

## **2. Essence, functions and objectives of accounting**

Accounting is a system of continuous generation of information in monetary terms about assets, liabilities, equity, income and expenses of an organization through the use of special methods, which is used for reporting and making economic decisions by users.

The content of accounting as a system consists of relatively independent stages of the accounting process: observation, measurement, registration and generalization of the information received.

At the observation stage, which is the beginning of the accounting process, the facts of the state and the results of changes in the observed objects are recorded. Accounting provides answers to the following questions: what, where and when happened.

At the measurement stage, the facts of economic life that have occurred are given quantitative and qualitative characteristics.

At the registration stage, information is recorded and processed about recorded facts of economic life, reflecting changes in accounting objects on paper or other information media.

At the generalization stage, information about the economic activities of the organization is systematized and grouped based on management goals and the needs of users of accounting information.

In the management system of an organization's economic activities, accounting performs the following functions:

informational – accounting is the main source of information for internal and external users. Based on accounting information, decisions are made to get out of the current situation;

control – based on comparison of actual data on the organization's economic activities with those expected and previously planned for the normal course of economic processes. Control is carried out before the start of a business transaction, during the transaction and after completion of the transaction;

analytical – allows you to assess the rationality of using the organization's material, labor and financial resources, the effectiveness of decisions made, study the prospects for the development of economic activity and reveal existing shortcomings, outline ways to improve it;

feedback – consists in the formation and transmission by accounting of information about the actual state and development of the control object, that is, feedback information. This function is performed by information systematized mainly from primary documentation.

The main tasks of accounting and reporting include:

- generation of complete and reliable information about the activities of the organization and its property status, income and expenses;
- providing, when the organization carries out business transactions, internal and external users with timely information on the availability and movement of property and rights to it, as well as on the use of material, labor and financial resources in accordance with approved norms, standards and estimates;
- preventing negative results of the organization's economic activities and identifying reserves for its financial stability.

## **TOPIC 2. SUBJECT AND METHOD OF ACCOUNTING**

### **1. The subject of accounting and its objects. Classification of accounting objects**

The subject of accounting is the activity of a business entity reflected in it, the basis of which is the property used and the property rights that have arisen, as well as business transactions and events leading to the formation of income, expenses and changes in capital.

Each separate type of existing property, the resulting property rights to it on the part of the founders (owner) and creditors, as well as business transactions and events are accounting objects. They can be divided into three types:

property – a set of economic resources that an organization has on property rights or other property rights, the use of which in the process of economic activity should bring it economic benefit. In accounting, this legal term is defined as assets;

property rights – a set of rights of founders and creditors to the organization's property accumulated in the process of economic activity. Based on the totality of property rights, they distinguish: property of the organization, free from the obligations of creditors, that is, equity capital, and property for which there is an outstanding debt to creditors, that is, obligations;

business transactions and events – a set of purposeful actions aimed at achieving one common goal of economic activity, as well as unexpected, unforeseen events leading to changes in assets, equity, liabilities, income, expenses.

Accounting objects are combined into two large groups:

Objects that support economic activity are the starting point for its implementation and are represented by property and a set of property rights of founders and creditors. Information about their condition is reflected in the balance sheet. These include: assets; equity; obligations.

The objects that make up economic activity are represented by business transactions and events leading to the formation of income and expenses, as well as changes in equity capital. These include:

- income – an increase in economic benefits during the reporting period by increasing assets and (or) decreasing liabilities, leading to an increase in the organization's equity capital, not related to the contributions of the owner of its property;
- expenses – a decrease in economic benefits during the reporting period by reducing assets or increasing liabilities, leading to a decrease in equity capital not associated with its transfer to the owner of the property or distribution between the founders.

The first three groups of objects form the basic balance sheet equation:  $\text{Assets} = \text{Equity} + \text{Liabilities}$

## **2. Accounting method and its elements**

The accounting method is a set of ordered methods of interconnected reflection of the economic activities of an organization, which are based on modeling the facts of economic life.

The accounting method includes the following methods, which are usually called elements of the accounting method: documentation and inventory, valuation and calculation, accounts and double entry, balance sheet and reporting. Methods are grouped by stages of the accounting process: observation, measurement, registration, generalization.

Documentation and inventory are methods of primary observation of accounting objects.

Documentation is a method of primary and mandatory registration of business transactions using documents at the time and place of their completion.

Inventory is a method of checking whether the actual availability of an organization's property corresponds to accounting data as of a certain date, as well as documenting individual facts of economic life.

Cost measurement of accounting objects is carried out using assessment and calculation.

Valuation is a way of expressing in monetary terms the costs of living and materialized labor invested in certain types of assets.

Costing is a method of grouping costs and calculating the cost (actual cost) of individual accounting objects.

To systematize information about the state and changes in property and property rights, income and expenses, techniques such as accounting accounts and double entry are used.

Accounts are a way of grouping information about the status and changes of economically homogeneous accounting objects.

Double entry is a method of recording business transactions on accounts, when each transaction is reflected simultaneously on two interconnected accounts in the same amount.

Generalization of information about the state and changes in accounting objects is carried out using the balance sheet and reporting.

The balance sheet is a method of economic grouping and generalization of information about the property of an organization and the property

rights of the owner (founders) and creditors in monetary value as of a certain date.

Accounting statements are a system of economic indicators characterizing the economic activities of an organization for a certain period of time.

Accounting statements, being the final link in the accounting process, make it possible to comprehensively reflect the property and financial position of the organization as of the reporting date, as well as the financial results of its activities for the reporting period. It is compiled on the basis of accounting data in established forms.

### **TOPIC 3. BALANCE SHEET AS AN ELEMENT OF THE ACCOUNTING METHOD**

#### **1. The concept of the balance sheet, its content and structure**

The balance sheet is a method of economic grouping in monetary terms as of a certain date of data on the organization's property and property rights to it on the part of the founders and creditors. The balance sheet is compiled on the basis of accounting data as of the 1st day of each month (quarter, half-year, year).

In form, the balance sheet is a table consisting of two vertically arranged parts. In the header of the balance sheet there is the word «Balance Sheet». The first part of the table is called an asset and serves to reflect property, grouped by composition and location. The second part is called equity and liabilities and serves to reflect the same property as the amount of rights to it on the part of the founders and creditors.

Due to the dual nature of the reflection of the subject of accounting, the balance sheet results must always be equal to each other, since the amount of assets must correspond to the amount of property rights to it, that is, balance sheet equality must be observed, which is the fundamental basis of the balance sheet and serves as a prerequisite for its preparation.

In the balance sheet, all types of property of the organization and property rights to it are combined into economically homogeneous groups, which are called balance sheet items. Balance sheet items are combined into groups based on the economic content of the items.

Groups of items are combined into sections of the balance sheet. On the left side of the balance sheet, all items are grouped into sections based

on the duration of use of funds in economic circulation, and on the right side – based on the type of property rights and the maturity of liabilities.

To reflect the state of accounting objects in the balance sheet, two columns are provided for digital indicators at the beginning and end of the reporting period. The basis for filling out the balance sheet is information about the balances of accounting items in accounting accounts. The total amount of the organization's funds or property rights in the «Balance» line is called the balance sheet currency.

The content, structure and procedure for filling out the balance sheet are regulated by law. Therefore, when drawing up a balance sheet, the requirements of regulatory documents regarding the disclosure of information on assets, equity, and liabilities must be taken into account.

## **2. Types of changes in accounting objects under the influence of business transactions**

The balance sheet is compiled as of a certain date and reflects the current state of the property and the totality of rights to it on the part of the founders and creditors. During the reporting period, business transactions are carried out that change not only the composition, structure and placement of assets, equity capital and liabilities reflected in the balance sheet, but also lead to the emergence of income and expenses that are reflected in the income statement.

According to the nature of the impact on the main objects of accounting (assets, equity capital, liabilities, income, expenses), all business transactions can be divided into four groups:

- the first – causes a simultaneous increase in both economic resources (assets) and property rights to them. The total amount in the «Balance» line increases;
- the second – leads to a change in the composition, location and value of the organization's economic resources (assets), as well as expenses equivalent to them, which were converted from assets. The total amount in the «Balance» line remains unchanged;
- the third – causes a simultaneous decrease in both economic resources (assets) and property rights to them. The total amount in the «Balance» line decreases;
- the fourth – changes the composition and value of property rights, as well as income equivalent to them, ensuring an increase in equity capital. The total amount in the «Balance» line remains unchanged.

## **TOPIC 4. ACCOUNTS AND DOUBLE ENTRY**

### **1. Concept and structure of accounts. The procedure for maintaining records on accounts**

An account is a method of registration, grouping, control and generalization in the monetary assessment of business transactions and events for economically homogeneous accounting objects.

Accounts are intended to reflect on them the results of the impact of business transactions on the object of accounting supervision. A separate account is opened for each separate type of assets, equity capital, liabilities, as well as income and expenses. Any account allows you to answer the question of what is included in the account.

The account has a name corresponding to the object accounted for on it, and a code designation according to the Chart of Accounts. The account contains the following elements: name of the account; debit, indicating the left side of the account; credit indicating the right side of the account.

The structure of the account also assumes the reflection of the opening balance, which shows the presence of an accounting object at the beginning of the reporting period.

Each side of the account is intended to separately reflect changes in the object accounted for in the account towards an increase or decrease. The total of records of all transactions on the debit or credit of an account for a certain period without an opening balance is called turnover, which denotes the final changes in the accounting object for the period. The account reflects debit turnover and credit turnover.

At the end of the period, the final balance is calculated in the account, which characterizes the presence of the corresponding accounting object at the end of the reporting period.

Algorithm for maintaining accounting records in the reporting period:

- at the beginning of the reporting period, an account should be opened for each accounting object, that is, give it a name, determine its number and record the initial balance. The opening balance for asset accounts should be placed on the left side of the account and for equity and liability accounts on the right side of the account. Income and expense ac-

counts do not have initial balances. For such accounts, only turnover is counted;

- during the reporting period, records of business transactions in accounts are made in chronological order on the basis of documents in which they are recorded by debit or credit based on the economic content of the transactions;
- at the end of the reporting period, after recording all transactions, debit and credit turnovers are calculated and balances at the end of the period are determined, which are the basis for drawing up a balance sheet. The final balances on debit accounts are reflected in it as assets at the end of the reporting period, and on credit – as equity and liabilities. Turnovers on income and expense accounts are reflected in the income statement.

## **2. The essence of double entry. Simulation of accounting entries**

Double entry is a method of accounting that ensures the duality of reflection of each business transaction in the debit of one and the credit of another interconnected account in the same amount.

Double entry provides a connection between accounts, which allows you to combine them into a single system. It is based on the principle of duality, which means that all economic phenomena have two aspects: increase and decrease, emergence and disappearance, which compensate each other. Therefore, a business transaction is registered in such a way that the debit amount of one account balances the credit amount of another account – this is the essence of double entry.

The connection that arises between accounts when business transactions are reflected in them using double entry is called correspondence of accounts, and the accounts participating in the correspondence are called correspondent.

The relationship between corresponding accounts expressed in writing, indicating their debit and credit, as well as the amount of the transaction, is called an accounting entry.

The correspondence of accounts is established based on the economic essence of a specific business transaction. To establish the correct correspondence of accounts for a business transaction, it is necessary:

- determine the accounting objects that change and the accounts that it affects, based on the content of the business transaction;

- determine the type of interrelated accounts based on their economic content;
- establish the nature of the change in interrelated accounts;
- establish the correspondence of accounts, based on the economic content of the business transaction.

### **3. Account classification**

According to the economic content of the accounting objects recorded in the accounts, the accounts are divided into: asset accounts, equity accounts, liabilities, income and expense accounts.

Asset accounts are accounting accounts that take into account the presence and movement of property (assets) of the organization for each of its types.

The opening and closing balances of such accounts are always in debit. During the reporting period, transactions related to an increase in assets are recorded in debit, and transactions related to their decrease are recorded in credit.

Own capital accounts, liability accounts are accounting accounts that take into account the presence and changes in property rights of the owner (founders) and creditors.

The initial and final balances of these accounts are always in credit. During the reporting period, transactions related to an increase in equity capital and liabilities are recorded on the credit side, and transactions related to their decrease are recorded on the debit side.

Income and expense accounts are accounting accounts that record changes in the composition of income and expenses. These accounts describe economic processes and their results, and the nature of changes in the accounts depends on their impact on the amount of profit added to capital. Since income increases equity capital, their increase should be on credit. Since expenses increase equity capital, the increase in expenses will be a debit.

A special feature of income and expense accounts is that they do not have balances. During the period, these accounts accumulate the amounts of expenses and amounts of income relating only to the reporting period. At the end of the period, the calculated preliminary turnovers are compared, and the resulting balance is transferred to another account. As a result, the turnover account is considered closed as having no balance.

## TOPIC 5. ACCOUNTING FOR FIXED ASSETS

### 1. Essence, composition, classification and valuation of fixed assets

Fixed assets are a set of labor instruments used in the production and sale of products (works, services, goods), in management, as well as material objects that create conditions for carrying out economic activities.

As objects of fixed assets, assets that have a material form and are used in the activities of the organization for a period of more than 12 months are accepted for accounting.

Objects of fixed assets are always land plots, as well as investments in land plots, land improvement, and environmental management facilities.

В бухгалтерском учете основные средства классифицируются по ряду признаков:

Based on their use in business activities, fixed assets are allocated:

- production – directly participate in the processes of production and sale of products or create the necessary conditions for their implementation. These include objects used in the business activities of the organization for the purpose of generating income;
- non-productive – are not used in business activities and do not generate income. Such objects are used in institutions or social facilities.

Based on their material composition, production fixed assets are divided into the following groups: land plots, investments in land plots and environmental management facilities, buildings, structures, transmission devices, machinery and equipment, vehicles, tools, production and household equipment, draft animals, perennial plantings, other types of fixed assets.

Fixed assets, after being accepted for accounting, can be taken into account:

- at historical cost, that is, the cost at which the asset is accepted for accounting as an item of fixed assets;
- at a revalued value, that is, the cost of an item of fixed assets after its revaluation.

In the balance sheet, fixed assets are shown at their residual value. Residual value is the difference between the initial (revalued) cost of an item of fixed assets and the amount of depreciation and impairment accumulated over the entire period of operation.

## 2. Accounting for receipt of fixed assets

Fixed assets enter the organization as a result:

- acquisition of objects from suppliers and other organizations;
- creating objects;
- free receipt of objects;
- founders' contribution authorized capital of the organization;
- placing unaccounted objects on the balance sheet.

Fixed assets are accepted for accounting under the account «Fixed Assets» at their original cost. Acceptance of fixed assets for balance is carried out by a commission appointed by order or directive of the head of the organization.

The initial cost of fixed assets received by the organization, as well as those created through new construction, is formed in the account «Investments in long-term assets». The debit of this account records all costs for the acquisition or creation of fixed assets.

After an item of fixed assets has been put into operation, its initial value, formed on the «Investments in Long-Term Assets» account, is debited to the «Fixed Assets» account from the credit of the «Investments in Long-Term Assets» account.

Fixed assets received free of charge from other persons are reflected in the debit of the «Investments in Long-Term Assets» account and the credit of the «Deferred Income» account at the current market value. Then, during its useful life, this cost is written off monthly in the amount of accrued depreciation to the income of the reporting period.

The initial cost of surplus fixed assets identified as a result of inventory is determined based on their current value. In this assessment, the object is taken into account as fixed assets. Its capitalization is reflected in the debit of the «Fixed Assets» account and the credit of the «Income and Expenses from Investment Activities» account.

The initial cost of fixed assets received by an organization from its separate divisions is determined based on the cost of these fixed assets at which they were listed in the accounting records of separate divisions. In this case, the receipt of objects is reflected in the debit of the Fixed Assets account and the credit of the Internal Business Settlements account. The amount of depreciation accumulated on received fixed assets is reflected in the debit of the «Intra-business settlements» account and the credit of the «Depreciation of fixed assets» account.

### 3. Accounting for disposal of fixed assets

Fixed assets are disposed of in cases:

- physical wear and tear;
- partial or complete liquidation;
- sales;
- gratuitous transfer;
- exchange;
- making contributions to the authorized capital of other organizations;
- identifying shortages.

When disposing of fixed assets, the amount of depreciation accumulated for the facility over the entire period of its operation is written off first. A decrease in the initial cost of a retired fixed asset by the amount of accumulated depreciation and impairment is reflected in the debit of the Depreciation of Fixed Assets account and the credit of the Fixed Assets account. The residual value of the disposed fixed asset item is written off from the credit of the «Fixed Assets» account to the debit of the accounts:

- «Long-term financial investments» – when making a contribution to the authorized capital of another organization;
- «Income and expenses from investment activities» – upon sale, write-off and gratuitous transfer of fixed assets;
- «Shortages and losses from damage to property» – when identifying a shortage of fixed assets.

Expenses associated with the disposal of fixed assets are reflected in the debit of the «Income and expenses from investment activities» account and the credit of the accounts:

- «Settlements with suppliers and contractors» – for the cost of services of contracting construction organizations;
- «Settlements with personnel for wages» – for the amount of wages of workers who dismantled and dismantled objects;
- «Settlements with various debtors and creditors» – for the cost of services of third-party organizations for the liquidation and dismantling of the facility.

The cost of materials received upon disposal of fixed assets is reflected in the debit of the «Materials» account and the credit of the «Income and expenses from investment activities» account.

#### 4. Accounting for depreciation

Depreciation is the economic process of transferring the value of long-term assets to the costs of production of products, works and services or sales costs. Depreciation is calculated in one of the following ways: linear, non-linear, productive method.

Accounting for depreciation charges on fixed assets is kept on the account «Depreciation of fixed assets». This account is regulating in relation to the «Fixed Assets» account. The credit of the account reflects depreciation operations, and the debit records the write-off of accrued depreciation.

The amount of accrued depreciation on fixed assets used in the main current activities of the organization is reflected in accounting as the debit of the accounts for accounting for production costs and sales expenses in correspondence with the credit of the «Depreciation of fixed assets» account. The amount of accrued depreciation on fixed assets used in current activities is recorded in the debit of the account to account for current costs («Main production», «Auxiliary production», «General production costs», «General business expenses») and the credit to the account «Depreciation of fixed assets».

For fixed assets that are not used in business activities, the amount of accrued depreciation is reflected in the debit of the «Service production and facilities» or «Income and expenses from current activities» accounts and the credit of the «Depreciation of fixed assets» account.

For fixed assets used in investment activities, accrued depreciation is reflected in the debit of the «Income and Expenses from Investment Activities» account and the credit of the «Depreciation of Fixed Assets» account.

The amount of accumulated depreciation on fixed assets decreases:

- upon disposal of depreciable property;
- transfer of objects to separate structural divisions of the organization.

When depreciating property is disposed of (except for transfer to separate structural divisions), the accumulated depreciation on them is written off to the debit of the «Depreciation of fixed assets» account from the credit of the «Fixed assets» account.

## **TOPIC 6. ACCOUNTING FOR PRODUCTION INVENTORIES**

### **1. The essence of inventories, their composition and classification**

Inventories are short-term material assets intended for the production of products, performance of work and provision of services. The objects of industrial inventories are raw materials, materials and other similar assets that will be consumed in the process of producing products, performing work, providing services, or used for the management needs of the organization.

All material inventories in accounting are grouped according to the following characteristics:

- 1) by purpose and role in production:
  - raw materials and supplies;
  - purchased semi-finished products, components, structures and parts;
  - fuel;
  - containers and packaging materials;
  - other materials;
  - inventory and household supplies;
  - spare parts.
- 2) by technical properties:  
ferrous metals, non-ferrous metals, rubber products, etc.

Each group of materials is divided into subgroups, for example, in the group of ferrous metals there are rolled products, beams and channels, steel, wire rod, etc. Each subgroup includes a list of names of materials with their technical characteristics.

- 3) at their location:
  - inventories held by the organization;
  - stocks in transit;
  - inventory transferred to others.
- 4) by organization affiliation:
  - inventories owned by an organization;
  - inventories owned by others and held for temporary use.

The basis for the correct organization of inventory accounting is the directory developed by the organization – a systematic list of materials, spare parts, fuel and other objects used in this organization. In it, materials

are listed by groups, subgroups and names, and each name of materials is assigned a nomenclature number.

In the balance sheet, inventories are reflected at the actual cost of their acquisition, which consists of the cost of materials at purchase prices and the costs of their procurement and delivery to the organization.

## **2. Accounting for the purchase of materials**

Accounting for the acquisition of materials. Inventories are accepted for accounting at actual cost. It is formed as the sum of actual costs associated with the acquisition of inventories. The actual cost of each type of production materials is established at the end of the month.

In current accounting, materials are valued at accounting prices (purchase price excluding value added tax). The accounting price is set for each type of inventory.

Deviations of the actual cost of purchased materials from their cost at accounting prices are taken into account in the account «Deviation in the cost of materials» and are distributed proportionally to the cost of materials consumed at accounting prices.

Materials come to the organization from suppliers, from its own production, from the write-off of fixed assets, from the capitalization of surpluses identified during inventory, purchased for cash, etc. When materials arrive, the warehouse manager checks the compliance of their actual quantity with the supplier's shipping documents.

For accounting of materials, the active account «Materials» is used. This account records raw materials and materials by type at accounting prices.

The account «Deviation in the cost of materials» reflects transportation and procurement costs (customs duties and duties, costs of loading materials and their transportation, remuneration paid to intermediary organizations, fees for storing materials at the place of purchase and with the carrier, business trips for workers involved in the procurement of materials, etc.).

Receipt of materials is reflected in the following accounts:

cost of materials – debit to the «Materials» account and credit to the «Settlements with suppliers and contractors» account;

cost of transport services – debit to the account «Deviation in the cost of materials» and credit to the account «Settlements with suppliers and contractors»;

the cost of materials received from the main production – debit to the «Materials» account and credit to the «Main Production» account;

the cost of materials received from auxiliary production – debit to the «Materials» account and credit to the «Auxiliary production» account.

### **3. Accounting for the release of materials from the warehouse**

The organization uses purchased materials for production and non-production purposes. The consumption of materials from the warehouse for production and economic needs is documented using various documents. The release of materials to third parties is documented using a bill of lading or a bill of lading.

Material consumption is accounted for separately for each production workshop and general business unit. The cost of materials used for production purposes is written off at accounting prices from the credit of the «Materials» account to the debit of accounts for accounting for production costs.

Transportation and procurement costs accounted for in the «Deviation in the cost of materials» account are distributed monthly between those spent on the production of products (works, services) and the materials remaining in the warehouse in proportion to the cost of materials at accounting prices. The basis for the calculations is the data on the «Materials» and «Variance in the cost of materials» accounts.

First, the percentage of deviations is determined by dividing the amount of transportation and procurement costs at the beginning of the month and incurred during the month by the amount of the cost of materials at the beginning of the month and received during the month and multiplying by 100.

Then the cost of consumed materials at accounting prices for each area of use is multiplied by the average percentage of deviations and divided by 100. In this way, the amount of transportation and procurement costs for materials consumed in the reporting period is calculated.

Transportation and procurement costs calculated at an average percentage are written off according to the directions of materials consumption from the credit of the «Deviation in the cost of materials» account, debit of the same accounts to which the materials consumed at accounting prices are written off.

The disposal of materials is reflected in the following accounts:

the cost of materials spent for production purposes at accounting prices – debit to the accounts «Main production», «Auxiliary production», «General production costs», «General expenses» and credit to the account «Materials»;

the cost of materials disposed of as a result of their sale – debit to the «Income and expenses from current activities» account and credit to the «Materials» account;

the amount of shortage of material resources identified during their inventory – debit to the «Shortages and losses from damage» account and credit to the «Materials» account.

## **TOPIC 7. ACCOUNTING FOR PAYMENTS WITH STAFF FOR WAGES**

### **1. Accounting for the number of employees and hours worked. Payroll calculation procedure**

To calculate earnings for employees of an organization, it is necessary to keep records of their number, the time worked and not worked by them, the work performed and output.

The HR department keeps records of the number of people working in the organization. Hiring, transfer to another place of work, dismissal are documented in standard form documents and an order for the organization. Copies of orders are transferred to the accounting department and serve as the basis for calculating earnings. In the personnel department, a personal card is filled out for each employee, and a work book is issued to those entering work for the first time. The person hired is assigned a personnel number, which is subsequently indicated on all documents related to this employee. The accounting department opens a personal account for each employee to record his earnings.

The time worked is recorded in the working time sheet. A separate timesheet is drawn up for each department, workshop, and area of the organization. In addition to the timesheet for recording time worked, lists of those working overtime, night shifts, and idle time sheets are compiled. Twice a month, the time sheet with all related documents is transferred to the accounting department for payroll calculation.

The procedure for calculating wages for the pay period depends on the form of remuneration.

To calculate wages for an employee who is paid on a time basis, his tariff rate must be multiplied by the number of hours actually worked per month. If the employee has an official salary and has not worked all the days according to the schedule for going to work in a given month, then to calculate wages during the month it is necessary to divide his official salary by the number of working days according to the schedule and multiply the resulting daily wage rate by the days actually worked.

With piecework wages, its amount is calculated by multiplying the piecework rate by the number of units of products produced or services rendered.

The legislation establishes types of additional payments to the basic salary, which are mandatory. These include additional payments for work at night, on holidays and weekends. The amount of these additional payments is established by the organization, taking into account specific working conditions, but not lower than the limits established by law. The types and amounts of other additional payments, allowances, bonuses, and remunerations are established by the organization independently.

All completed primary documents for the calculation of wages, benefits, bonuses and other types of income are submitted to the accounting department by the established deadline. From primary documents, information on accrued wages for each employee is transferred to his personal account. Based on personal accounts, payslips are filled out and given to workers.

## **2. Types of deductions from wages and their accounting**

Deductions from wages are made in accordance with tax and labor laws. All deductions can be divided into three groups:

- deductions according to executive and other documents (mandatory) (income tax, mandatory insurance contributions to the pension fund, according to executive documents);
- made at the initiative of the employer (for the return of an advance issued on account of wages; for the return of amounts overpaid due to accounting errors; for the repayment of unspent and not returned in a timely manner advance issued for a business trip or for business needs; for compensation of damage caused employer by employee);
- made at the initiative of the employee upon his written application for non-cash payments (deductions for goods sold on credit; regular

payments for personal insurance based on insurance policies; administrative fines).

The object of taxation for calculating income tax is income received by payers. When determining the tax base, all income of the payer received by him during the tax period is taken into account.

The tax base is determined monthly, and the income tax rate provided for by law is applied. The list of income that is subject to income tax is determined by tax legislation. The types of income that are not subject to income tax are also established.

When determining the size of the tax base in relation to income received from the main place of work, the payer has the right to tax deductions.

Mandatory insurance contributions to the pension fund are withheld from accrued wages. When determining the amount of these contributions, all types of wages that are used in calculating pensions are taken into account.

Deductions under writs of execution include: fines, alimony and other types of deductions. Alimony is withheld from the total amount of income, including bonuses, benefits for days of incapacity for work and others after withholding income tax. The amount is indicated in the writ of execution.

In accounting, the amounts of deductions from wages are reflected in the debit of the account «Settlements with personnel for wages» and the credit of various accounts:

- «Calculations for taxes and fees» – income tax withheld;
- «Calculations for social insurance and security» – insurance contributions to the pension fund are withheld;
- «Settlements with accountable persons» – the balance of unreturned accountable amounts is withheld;
- «Settlements with various debtors and creditors» – deductions from wages according to executive documents in favor of other organizations and persons; next payments for personal insurance.

### **3. Accounting for payroll calculations**

To record payroll settlements, the account «Payroll settlements with personnel» is used. The credit balance of this account reflects the amount of accounts payable of the business entity to the employee for wages.

On the credit of the account «Settlements with personnel for wages» in correspondence with the debit of various accounts are reflected:

- «Investments in long-term assets» – remuneration for workers engaged in the creation of long-term assets;
- «Main production», «Auxiliary production», «General production costs», «General business expenses», «Sales expenses» and other accounts – wages have been accrued for employees of the relevant productions (divisions);
- «Calculations for social insurance and security» – benefits are accrued from the funds of the corresponding fund;
- «Income and expenses for investment activities» – accrued wages for workers involved in the liquidation of fixed assets.

In the debit of the account «Settlements with personnel for wages» in correspondence with the credit of different accounts, payments and deductions from wages are reflected:

- «Current accounts» – amounts of wages and benefits transferred from a current account to bank payment cards;
- «Calculations for taxes and fees» – income tax withheld;
- «Calculations for social insurance and security» – mandatory insurance contributions to the pension fund are withheld;
- «Shortages and losses from damage to property» – accountable amounts not returned by employees within the established time frame are withheld;
- «Settlements with personnel for other transactions» – amounts are withheld to compensate for damage caused and repay loans;
- «Settlements with various debtors and creditors» – payments in favor of other persons are withheld;
- «Income and expenses for current activities» – wages paid in goods and other short-term tangible assets.

## **TOPIC 8. ACCOUNTING FOR PRODUCTION COSTS AND CALCULATING THE COST OF PRODUCTS (WORKS, SERVICES)**

### **1. The essence of production costs and production costs. Cost classification**

The actual cost of products, works, services is formed based on the total costs of their production. It includes – direct costs and variable indirect costs directly related to the production of products, performance of work, provision of services.

Direct costs include direct material costs and direct labor costs. Variable indirect costs include general production costs. Such expenses are distributed between types of products, works and services.

The cost of manufactured products, works and services does not include:

- costs and losses attributed to other expenses for current activities – for canceled orders, for the maintenance of mothballed production facilities, etc.;
- management expenses of the organization classified as fixed expenses;
- sales costs – commercial expenses of a production organization.

According to content and purpose, costs are grouped by elements and cost items. The following cost elements are distinguished:

- material costs;
- labor costs;
- social contributions;
- depreciation of fixed assets and intangible assets;
- other costs.

For the purpose of calculating the cost of products, works and services, current costs are grouped by item:

- raw materials and supplies;
- purchased components, semi-finished products, production services;
- fuel and energy;
- basic and additional wages of production workers;
- taxes and deductions calculated from wages of workers;
- expenses for preparation and development of production;
- overhead costs;
- technological losses and losses from defects;
- other production costs.

According to the method of inclusion in the cost of products, works, services, costs are divided into direct and indirect. Direct costs include: materials, wages of main production workers, losses from defects, etc. Indirect costs are the costs of maintaining and operating equipment, electric-

ity for production purposes, etc.). They are included in the cost of products (works, services) by distribution.

## **2. Accounting for production costs**

The costs of producing finished products are accounted for in accounting as follows: direct costs – in the accounts: «Main production» and «Auxiliary production», variable indirect costs – in the account «General production costs».

The main production is considered to be the manufacture of those products, the production and sale of which constitute the subject of the organization's activities. Repair shops, tool shops, steam power shops, etc. are called auxiliary shops.

To form the cost of products, works, services, direct and indirect costs are grouped by types of manufactured products (works, services) and by costing items on the active account «Main production».

Direct production costs are accounted for by the debit of the «Main production» account in correspondence with the credit of the accounts «Materials», «Settlements with suppliers and contractors», «Settlements for social insurance and security», «Settlements with personnel for wages» and others invoices based on documents prepared in accordance with the established procedure. Indirect variable costs are written off after their distribution from the credit of this account to the debit of the «Main production» account.

The actual cost of manufactured products is determined in the following order: the amount of production costs minus returnable waste is added to the balance of work in progress at the beginning of the month, and work in progress at the end of the month is subtracted from the result obtained. The actual cost of work performed and services provided is determined by the total cost of their production, recorded as a debit to the «Main production» account. To determine the cost of each type of product, accounts are opened to the «Main Production» account for each type of manufactured product, and within each type of product, expenses are accounted for by cost items.

The actual cost of manufactured products is written off to the debit of the «Finished Products» account from the credit of the «Main Production» account. The balance of the «Main production» account reflects the amount of costs in work in progress.

## **TOPIC 9. ACCOUNTING FOR FINISHED PRODUCTS AND ITS SALES**

### **1. Accounting for finished product release**

Finished products – products that have gone through all stages of technological processing, complying with standards and specifications, accepted by the technical control department, completed and delivered to the warehouse of the organization or customer.

In current accounting, finished products are usually reflected at book prices. The standard (planned) production cost or the selling price without value added tax can be used as the accounting price of finished products.

Accounting for finished products is maintained on the active account «Finished Products». Finished products are accounted for at actual production costs. During the month, the arrival of products can be reflected at established accounting prices.

The actual cost of manufactured products is written off once a month by an account from the credit of the «Main Production» account to the debit of the «Finished Products» account. Deviations of the actual production cost from the accounting price are reflected only in the product flow records.

When recording movements of finished products at accounting prices during a month, a separate account reflects the deviation of the actual production cost of these products from their cost at accounting prices. In accounting, they are reflected in the same accounts as income from the production of finished products. In this case, a negative deviation is reflected by an entry with a minus sign, and a positive deviation is reflected by a regular account.

At the end of the month, when the actual cost of the finished product has been determined and the deviation of the actual cost from the book value has been calculated, entries are made in accounting:

- by the amount of the positive deviation (the actual cost of products released from production will be higher than the accounting value of these products) – by debiting the «Finished Products» account and crediting the «Main Production» account;
- by the amount of negative deviation (the actual cost of products released from production will be lower than the accounting value of these

products) – by debiting the «Finished Products» account and crediting the «Main Production» account with a «minus» sign.

## **2. Accounting for sales of finished products. Accounting for costs of product sales**

Products are considered sold if they are prepared with the appropriate documents and transferred to the buyer's representative or the carrier under the conditions specified in the contract. Payment for sold products is made at selling prices, taking into account value added tax.

To account for the sale of finished products, the following accounts are used: «Sales expenses», «Settlements with buyers and customers», «Income and expenses for current activities» etc.

Revenue from sales of products is reflected in accounting using the accrual method. Receivable revenue at selling prices with value added tax is reflected in the debit of the «Settlements with buyers and customers» account and the credit of the «Income and expenses from current activities» account. The actual cost of products sold is written off to the debit of the Income and Expenses from Current Activities account from the credit of the Finished Products account

In the process of shipping products to customers, costs arise for packaging products in finished product warehouses, for delivering products to the place of departure, loading them into vehicles, for maintaining premises for storing products at places of sale, for advertising, and other expenses similar in purpose, which are called business expenses. These expenses are summarized in the «Sales expenses» account.

Together with production costs, these costs constitute the full cost of products sold. The debit of this account includes all expenses for the shipment and sale of products, and the credit includes writing off these expenses to the account «Income and expenses for current activities».

Expenses arising during the month are reflected in the debit of the «Sales expenses» account and the credit of the accounts:

- «Materials» – the cost of containers and packaging used in packaging finished products;
- «Settlements with suppliers and contractors» – for the cost of commercial services provided by third parties at tariffs without value added tax;
- «Settlements with personnel for wages» – for accrued wages to employees for loading and unloading operations, etc.

At the end of the month, the amounts of sales expenses recorded in the «Sales expenses» account are written off from the credit of this account to the debit of the «Income and expenses from current activities» account.

## **TOPIC 10. ACCOUNTING FOR FINANCIAL RESULTS OF ECONOMIC ACTIVITIES**

### **1. Essence and classification of income and expenses of an organization**

The financial result in accounting is determined by comparing the income received and the expenses incurred.

Income – an increase in economic benefits during the reporting period as a result of an increase in assets or a decrease in liabilities, leading to an increase in the organization's equity capital not associated with contributions from the property owner.

Expenses – a decrease in economic benefits during the reporting period as a result of the disposal of assets or an increase in liabilities, leading to a decrease in the organization's own capital, not associated with the transfer of property to its owner.

Income and expenses by area of activity are divided into groups:

- income and expenses for current activities;
- income and expenses from investment activities;
- income and expenses from financial activities.

Income and expenses for current activities are the income received by the organization and expenses incurred for those types of business that constitute the subject of its current activities.

Income and expenses for investment activities are income received and expenses incurred in connection with the implementation of investment operations (acquisition and creation, sale and other disposal of long-term tangible and intangible assets, as well as sale (repayment) of financial investments).

Income and expenses from financial activities are the income received by the organization and the expenses incurred by it in connection with the implementation of financial transactions that lead to a change in equity capital and/or liabilities.

Income from all types of main current activities is called revenue. Expenses for main current activities include the following types of costs:

- cost of goods sold, goods, works, services;
- administrative expenses;
- sales costs.

To systematize information for each type of income and expenses, the chart of accounts provides for the accounts «Income and expenses for current activities», «Income and expenses for investment activities», «Income and expenses for financial activities».

## **2. Accounting of income, expenses and profits**

To record income and expenses for current activities, the chart of accounts is intended for the account «Income and expenses for current activities». The debit of the account reflects expenses for current activities, and the credit reflects income.

When selling products, works and services to buyers and customers without the use of cash, proceeds from sales are reflected on an accrual basis and are reflected in the debit of the account «Settlements with buyers and customers» and the credit of the account «Income and expenses from current activities».

Value added tax is charged on the amount of revenue received, which is reflected in accounting as an entry in the debit of the «Income and expenses for current activities» account and the credit of the «Calculations for taxes and fees» account. Other taxes and fees calculated from the proceeds from the sale of products, goods, works, services are reflected in a similar way.

The cost of sold products, works and services is written off to the debit of the «Income and Expenses from Current Activities» account from the credit of the «Main Production» and «Finished Products» accounts.

At the end of the reporting period, management expenses and expenses for the sale of products, works and services recorded in separate accounts are written off without distribution. When writing off management expenses, the «Income and expenses for current activities» account is debited and the «Overall production costs» account is credited. Expenses for the sale of products, goods, works and services at the end of the month are written off to the debit of the «Income and expenses for current activities» account from the credit of the «Sales expenses» account.

During the reporting period, the account also reflects data on other income received and expenses for current activities.

Monthly comparison of income and expenses for current activities reveals the final financial result. It is written off in the following order:

- profit from current activities – by debiting the «Income and expenses from current activities» account and crediting the «Profits and losses» account;
- loss from current activities – by debiting the «Profit and Loss» account and crediting the «Income and Expenses from Current Activities» account.

Net profit (net loss) is the financial result of an organization for the reporting period, formed after the accrual of taxes and fees paid from profits. To generate the final financial result in accounting, the «Profit and Loss» account is used.

The debit of the «Profit and Loss» account reflects the balance of losses written off from the accounts for accounting for income and expenses by type of activity, taxes and fees accrued from profits before its distribution, and the credit reflects the balance of profit written off from the accounts for accounting for income and expenses. The final financial result of the organization's activities for the reporting period (net profit or net loss) is determined by comparing debit and credit turnover on this account.

## **TOPIC 11. ACCOUNTING REPORTING OF THE ORGANIZATION**

### **1. Essence, meaning and composition of financial statements**

Accounting statements are a system of indicators reflecting the financial condition, income and expenses, movement of capital and funds of the organization in the reporting period.

The essence of accounting reporting is to summarize accounting data in the form of economic indicators in tables of a certain form, convenient for perception and use by internal and external users. Accounting statements are a source of information for assessing the financial condition and performance of an organization on the part of the owner (founders), banks, creditors and other interested parties.

According to the frequency of preparation, the financial statements of an organization are divided into:

- intermediate, which can be monthly, quarterly and semi-annual;
- annual reports reflecting the results of the organization's activities for the reporting year.

The composition of financial statements is determined by law. The main forms of financial statements are the balance sheet and profit and loss statement.

The balance sheet reflects the state of the organization's assets, capital and liabilities at the reporting date. In form, the balance sheet is a table consisting of two parts: assets, on the one hand; equity and liabilities, on the other hand.

The basis for constructing a balance is the formula of balance equality:  $\text{Assets} = \text{Liabilities} + \text{Equity}$

Assets in the balance sheet are presented in two sections: long-term assets and short-term assets. Own capital and liabilities in the balance sheet are presented in three sections: equity, long-term liabilities and short-term liabilities.

The profit and loss report is compiled based on the results of the organization's work for the quarter or year, containing data both for the reporting period and for the same period of the previous year. The report indicators are formed on an accrual basis from the beginning of the year to the reporting date. This report is used to analyze the financial results of the organization and assess the effectiveness of the organization.

Income and expenses are grouped in the report by area of activity, which makes it possible to analyze the formation procedure and composition of the organization's profit (loss). First, income, expenses and financial results for current activities are disclosed. Then the report reflects income, expenses and financial results from investment and financial activities.

The income statement provides an indicator of profit (loss) before tax, as well as its transformation into an indicator of net profit (loss). Profit (loss) before tax is transformed into net profit (loss) by accruing taxes and fees paid from profit, as well as deferred tax assets and deferred tax liabilities.

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