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Procedia Economics and Finance 15 (2014) 312 – 317

Procedia Economics and Finance

www.elsevier.com/locate/procedia

Emerging Markets Queries in Finance and Business

Accounting plan – information base for management

Anna Bánociová[a] , Ľudmila Pavliková[a,]*

[a]Technical University of Košice, Faculty of Economics,Němcovej 32, 040 01 Košice, Slovakia

Abstract

The article provides information on the development of the financial plan, which is expected not only to meet the information needs of management, but also to help the company to comply with financial reporting standards and ensure the provision of administrative and comparable information to third parties. The aim of the article is also to provide basic information about bookkeeping and legislative guidance in the Slovak Republic. This article was written in connection with the project FASTER ICT – Financial and Accounting Seminars Targeting European Regions.

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Key words: acccounting plan, accounting entity , double-entry bookkeeping

1. History of Accounting Plans

Over the years, the globalization of economies, the set-up of international corporations, the increase of the stock exchange capitalization and the development of the capital markets (Šoltés M. 2012), have increased the need for comparably presented information in the financial reports and commonly used terminology of the main economic and financial operations of the companies. There was a significant need for an accounting standardization, ensuring the presentation of related and correct information about the assets structure and the financial health of every economic unit in a country. This universal standardization of accounting at national level is called accounting plan.

* Corresponding author. Tel.: 00421.55.6023277; fax: 00421.55.6023285
E-mail address: ludmila.pavlikova@tuke.sk

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Selection and peer-review under responsibility of the Emerging Markets Queries in Finance and Business local organization
doi:10.1016/S2212-5671(14)00513-9

Mr. Schmalenbach, professor of the University of Cologne, was the founder of the accounting plan idea and published the first complete chart of accounts in 1927, which was a base for all subsequent accounting plans. The work of Eugene Schmalenbach was "to create a sensation" (Richard, 1995, p.98) among continental European accountants. In that year he published a standardized accounting chart model. The model placed cost accounting at the centre of a coding system which attempted to mirror the "circuit" of resources to, from and within an enterprise. One of the main goals of the model was to act as the accounting skeleton for an organization, to "design an information system, similar to a data bank, allowing a quick decision-making". The model was accepted by the German government in 1937 in the form known as the Goering Plan and it offered a means of control over the production and supplies for organizing the economy.

Later, the French general accounting plan was published and vastly accepted as the best and the most perfect scientific base at that time. It had been enormously influential in a number of countries in Europe and elsewhere in the world: countries such as Belgium, the Czech Republic, Greece, Romania, Spain and francophone West Africa developed accounting plans, which were and still are, in large part, based upon the French general accounting plan.

The European Union has undoubtedly made a considerable progress towards the uniformity of accounting practice among countries which have quite different accounting traditions and structure. The 4th and 7th Directives were used as main tools for that. The 4th Directive (1978) was focused on creating uniformity in financial reporting and particularly the content and format of balance sheets, profit and loss statements, funds statements and notes to the accounts. This directive, which was the initial step on the way towards the establishment of general accounting plans in all countries of the European Union, incorporated elements of Anglo-Saxon accounting theory, resulting from a pressure exercised by the UK (Nobes and Parker, 1983). This included the idea of a "true and fair view", a concept unknown in many countries. Undoubtedly it has been a very important tool for raising the quality of financial reporting in the European Union. Although the findings show that there is still a considerable diversity on a number of accounting issues in Europe, in general the 4th Directive has been reasonably well implemented by the Member States. The 4th Directive dealt with disclosure of the accounts of individual companies. The 7th Directive (1983) expanded the 4th Directive's requirements to the consolidated accounts of groups of companies. It applies the requirements of the 4th Directive to group accounts, establishes standards of consolidation and addresses other issues of special relevance to multinational enterprises.

An accounting plan can be defined as a systematic method of bookkeeping in accordance with a defined layout and content of operating rules, common terminology, specified accounting treatments and a predetermined plan for recording transactions which consists of a structured list of classified accounts. These accounts are grouped in broad categories, analyzed by nature and further subdivided into lower level subcategories which permit a more detailed analysis of transactions (Tušan, Hudáková-Stašová 2008). A characteristic feature of any accounting plan is that to each account is assigned a name and a unique code number by which the account can be identified. Each nominal ledger account is unique. The account coding system is used by accounting software to aggregate information into entity's financial statements. The coding convention should be designed with a space left for the addition of new accounts in the future. Accounts are usually listed in accordance with their appearance in the financial statements, starting with the balance sheet (assets, liabilities, and equity) and continuing with the income statement (operating revenue and expenses, and non-operating revenues/gains and expenses/losses). Within the categories of operating revenues and operating expenses, accounts might be further organized by business function (such as producing, selling, administrative, financing) and/or by company divisions, product lines, etc.

The accounting plan not only meets the information needs of the management, but also helps a business to comply with the financial reporting standards and assures the provision of correct and comparable information to third parties. It is used to organize the finances of the entity, to secure a fixed structuring of the accounts created in the bookkeeping and to segregate expenditures, revenues, assets and liabilities in order to give a better

understanding of the financial health of the entity to interested parties. As a result, misunderstanding, confusion and controversy will be avoided or significantly reduced when accounting information is used by the management of enterprises, public administration and taxation agencies.

The adoption of an accounting plan assures the design of accounting at a national and European level and facilitates the preparation of national accounts. Also, the calculation of national income is based on measures that are common for all enterprises. The reliable and comparable information, which is provided by the accounting plan, is necessary for the proper preparation of national accounts, according to which the economic policy of a country is designed and applied. Generally, national accounting plans can be made to meet the needs of economies at different levels of development and also the need of sophistication of business methods (Mura, Buleca 2012).

It is noteworthy that a well-structured general accounting plan has a beneficial impact on the accounting education and training. This is because it provides a clear definition of the conceptual content of accounting and its operating rules and a common terminology. In this way it facilitates the systematic and disciplined teaching and training of the students. If the accounting transactions and events fall within the correct framework of an accounting plan, then the rest of the accounting procedures are extremely facilitated. It is clear that this kind of training makes employment in industrial and commercial enterprises easier and more efficient. Also the moving of employees from one enterprise to another does not create informational and adaptability problems, as the basic accounting procedures are basically the same (Šoltés, Gavurová 2013).

2. Results and discussion

Accounting in the Slovak Republic is regulated by the Act No. 431/2002 on Accounting. This Act governs the scope, methodology and verifiability of accounting by legal persons having their registered offices in the Slovak Republic, non-resident persons doing business or conducting other activities in the Slovak Republic under separate regulations, natural persons doing business or undertaking other independent earning activities where they report expenses incurred for acquiring, assuring and maintaining income, in order to determine their income tax base under a separate regulation, as well as the scope, content and verifiability of financial statements. The persons referred shall be considered as accounting entities (Šoltés, Jakubíková 2008) .

An accounting entity shall keep accounts in the double-entry bookkeeping system or in the single-entry bookkeeping system.

The subject matter of the accounting states on the keeping the records of the state and movement of assets, the state and movement of liabilities, the difference between assets and liabilities, income, expenses, cash receipts, cash expenditures, profit or loss of the accounting entity.

The Act on Accounting defines:

a) asset – represents a part of the accounting entity's total on- and off- balance sheet assets, which result from past events and which increase the accounting entity's future economic benefits, and is reported in the financial statements either in the balance sheet or in the profit and loss statement,

b) liability - an accounting entity's existing obligations, which arise from past events and which are expected to reduce the accounting entity's future economic benefits, and are reported in the financial statements either in the balance sheet or in the profit and loss statement,

c) income - means a reliably measured increase in an accounting entity's economic benefits during an accounting period,

d) economic benefit - means the possibility of direct or indirect contribution to cash flows and cash equivalents,

e) expense - means a reliably measured decrease in an accounting entity's economic benefits during an accounting period,

f) cash receipt - means an accounting entity's inflow of cash or cash equivalents,

g) cash expenditure - means an accounting entity's outflow of cash or cash equivalents,

h) profit or loss - means the valued final effect of an accounting entity's activities in an accounting period,

i) total on- and off-balance sheet assets - means economic resources, which arise from past events and which are expected to result in an increase in the future economic benefits; total on- and off-balance sheet assets include assets and off-balance sheet assets,

j) off-balance sheet asset - means total on- and off-balance sheet assets which do not meet the conditions for being recorded in the ledger accounts and which shall be presented in the notes to the financial statements,

k) total on- and off-balance sheet liabilities - mean the sources of assets representing the total amount of liabilities of an accounting entity, including off-balance sheet liabilities and the difference between assets and liabilities,

l) off-balance sheet liabilities mean - an accounting entity's liabilities which do not meet the conditions for being recorded in the ledger accounts and which shall be shown in the notes to financial statements.

An accounting entity shall record and report transactions in the period to which they timely and factually relate. If this principle cannot be followed, such transactions shall be recorded and reported in the period when the relevant facts were identified by the accounting entity. The accounting entity shall record income and expenses in the accounting period in which they incurred, regardless of the date of payment or collection thereof or the date of settlement by other methods. Cash receipts and cash expenditures shall always be recorded in the accounting period in which they are paid or collected.

An accounting period shall be identical to a calendar year. An accounting period may also be equivalent to a financial year. The financial year shall be a period of 12 consecutive calendar months, not identical with a calendar year. Any change of an accounting period may happen only on the first day of a calendar month.

An accounting entity that is a legal person shall keep accounts from the date of its incorporation until the date of its dissolution; a natural person who reports expenses incurred for acquiring, assuring and maintaining income in order to determine the income tax base shall keep accounts for as long as person does the business or perform other independent earning activities.

An accounting entity is obliged to keep accounting and prepare financial statements for the entire entity as one unit. In such cases, where the accounting entity needs to keep accounts for itself, but also on behalf of other persons, the bookings need to be done separately. Accounting entity is obliged to keep the books as a system of accounting records. Accounting records include especially accounting documents, accounting entries, books of account, a depreciation schedule, inventory lists, an accounting schedule, financial statements and an annual report. Individual accounting records may be grouped into accounting records containing summary information. An accounting entity is required to keep accounts and prepare financial statements in monetary units of the Euro currency. Where receivables and payables, shares, securities, derivatives, cash, stamps and vouchers are stated in a foreign currency, the accounting entity must record them in both, Euro and foreign currency. An accounting entity must keep books and draw up financial statements in the state language. An accounting entity may entrust the keeping of its accounts to another legal or natural person. An accounting entity must be able to prove all accounting transactions with accounting documents. An accounting has to take an inventory of its assets, liabilities and the difference between assets and liabilities. An accounting entity is required to prepare its individual financial statements.

An accounting entity shall prepare:

a) ordinary financial statements,

b) extraordinary financial statements,

c) interim financial statements.

An accounting entity shall keep accounts in such way that its financial statements present a true and reliable view of facts that are subject to the bookkeeping and of its financial situation. The presentation in the financial statements is reliable, if the contents of individual items correspond to the respective facts and if it complies with the applicable accounting principles and accounting policies. The presentation in the financial statements is

considered as true, if the financial statements are prepared by applying the accounting principles and policies that lead to a reliable presentation of the facts in the financial statements.

An accounting entity must apply the same accounting policies and accounting principles within the one accounting period; if an accounting entity changes the existing accounting policies and accounting principles in the course of an accounting period, the new accounting principles and accounting policies must be applied as of the first date of that accounting period. An accounting entity is required to provide information about a change in its accounting principles and accounting policies in the notes to the financial statements. If an accounting entity realizes that the accounting principles and accounting policies applied in the accounting period are incompatible with the requirement of a true and reliable view, the accounting entity is obliged to prepare its financial statements in such way that it provides a true and reliable view. The accounting entity shall provide information thereof in the notes to the financial statements.

An accounting entity shall apply the accounting principles and accounting policies based on the assumption that its activities will be ongoing and that there are no facts that could restrict or prevent it from performing these activities in the near future, that is, within 12 months of the preparation of the ordinary financial statements. If the accounting entity possesses information about any of such facts, it is required to use the accounting methodology corresponding with the new situation and to state information on the use of the methodology in its notes to the financial statements.

An accounting entity shall keep accounts correctly, completely, verifiably, comprehensibly and in a way that ensures the durability of the accounting records. An accounting entity keeps accounts correctly if its bookkeeping is carried out in accordance with this Act and with other separate regulations. An accounting entity keeps accounts verifiably if all of its accounting records are verifiable and the accounting entity has taken stock of its inventory.

Acknowledgement

"This work has been kindly funded by the European Commission through the LLP Project FASTER: Financial and Accounting Seminars Targeting European Regions (No. 518894-LLP-1-2011-1-GR-KA3-KA3MP). I also wish to acknowledge my gratitude and appreciation to all of the FASTER project partners for their contribution during the development of research presented in this paper. This publication reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein."

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