



Jihočeská univerzita
v Českých Budějovicích
University of South Bohemia
in České Budějovice

FINANCIAL STATEMENTS

- Study Text



FINANCIAL STATEMENTS: BALANCE SHEET – CONTENT AND FORMAL REQUIREMENTS

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EVROPSKÁ UNIE
Evropské strukturální a investiční fondy
Operační program Výzkum, vývoj a vzdělávání



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The balance sheet is the most important financial statement compiled in the system of accounting. It summarizes a company's assets, equity and liabilities at the end of a specified date. A company balance sheet has three parts. It is assets, liabilities, and ownership equity. The main categories of assets are usually listed first, and typically in order of liquidity. Assets are followed by the liabilities. The difference between the assets and the liabilities is known as equity or the net assets or the net worth or capital of the company.

The balance sheet gets its name from the fact that the two sides of the equation – assets on the one side and liabilities plus owner's equity on the other side – must balance out. A company has to pay for all the things it owns (assets) by either borrowing money (taking on liabilities) or taking it from investors (issuing shareholders' equity).

The purpose of a balance sheet is to show the financial position of a business on a certain date, usually the end of the month or year. For this reason, it often is called the statement of financial position, and is dated as of a certain date. The balance sheet presents a view of business as the holder of resources, or assets, that are equal to the sources of those assets. The sources consist of the company's liabilities and the owner's equity in the company.

Balance sheet

FIXED ASSETS (LONG-TERM ASSETS, NON-CURRENT ASSETS)	OWNER'S EQUITY
<ul style="list-style-type: none">• Intangible assets• Tangible assets• Long-term financial assets (investments)	<ul style="list-style-type: none">• Common stocks (basic capital, share capital, registered capital)• Funds• Earnings – retained (previous accounting period)• Earning – current accounting period (Economic result, Profit/Loss)
CURRENT ASSETS	LIABILITIES
<ul style="list-style-type: none">• Inventories• Receivables<ul style="list-style-type: none">▪ short-term▪ long-term• Short-term financial accounts<ul style="list-style-type: none">▪ Cash and bank account▪ Cash equivalents▪ Short-terms investments (securities)	<ul style="list-style-type: none">• Reserves• Liabilities (debts)<ul style="list-style-type: none">▪ short-term▪ long-term
TOTAL ASSETS	TOTAL EQUITIES/LIABILITIES



1 THE PROPERTY OF A COMPANY AND ITS RESOURCES.

THE ACCOUNTING EQUATION AND THE BALANCE SHEET

The whole of financial accounting is based on the accounting equation. The **total assets** of the business **have to equal the capital** of the business.

$$A = E$$

$$\text{Assets} = \text{Equity}$$

where the money went to = where the money came from

Equities may be subdivided into two types – the rights of creditors and the rights of owners.

$$\text{Assets} = \text{liabilities} + \text{owner's equity}$$

$$\text{Assets} - \text{liabilities} = \text{owner's equity}$$

1.1 Assets

Assets are divided into fixed assets and current assets. Fixed assets are divided into intangible assets, tangible assets and long-term financial assets. Current assets are divided into inventories, long-term receivables, short-term receivables and short-term financial assets.

Fixed assets, also known as tangible assets, is a term used for assets and property that cannot easily be converted into cash. In most cases, only tangible assets are referred to as fixed. Fixed assets are defined as assets whose future economic benefit to the flow into the entity is probable, and the cost of which can be measured reliably. These are the assets which are purchased with the legal right of ownership and use. These assets can also be defined as assets not directly sold to consumers.

The use of fixed assets in a generation is usually more than a year. The Accounting Act says that the valuation of intangible and tangible assets depends on the settings of a company, but the Act No. 582/1992 Coll., on Income Taxes defines the valuation of intangible assets on a level of more than 60 000 CZK and the valuation of tangible assets on a level of more than 40 000 CZK.

Intangible assets are in general:

- intangible results of research and development,
- software,
- appraisable rights,
- petty long-term intangible assets,
- goodwill,
- other long-term intangible assets.

Tangible assets are in general:

- buildings,
- individual movables and sets of movables without differentiation,
- growers' units of perennials,
- animals,



- petty long-term tangible assets,
- other long-term tangible assets.

The consumption of intangible and tangible assets is usually gradual. But as time passes, many fixed asset lose their capacity to provide useful services. This decrease in usefulness is a business cost called *depreciation*. But there are also the types of assets that are not depreciated. Their value in time does not decrease, but rather increases.

Tangible assets which are **non-depreciable** are:

- land,
- artistic works and collections.

There are also **long-term financial assets**, which bring payment (any profit) in future (more 1 year):

- long-term capital shares (stock) – purchased (acquired),
- long-term bonds – purchased (acquired),
- provided long-term loan,
- other long-term financial assets.

Current assets are important to businesses because they can be used to fund day-to-day operations and pay ongoing expenses. Components of current assets are used to calculate a number of ratios related to a business's liquidity. Current assets are any assets which can be expected to be sold, consumed, or exhausted through the normal operations of a business within the current year. Typical current assets include cash, cash equivalents, short-term investments, accounts receivables, stock inventory and the portion of prepaid liabilities which will be paid within a year.

Stock inventory consists of:

- material,
- inventories of a company's own production (unfinished production, semi-finished products from one's own production, products, animals),
- merchandise.

Cash and cash equivalents consist of:

- cash desk (treasury),
- valuables (postage stamps, highway stickers, stamps, phone cards, taking on fuel, food vouchers, etc.),
- bank accounts.

Short-term investments (short-term financial assets), which bring payment (any profit) in nearby future (up to 1 year): consist of:

- short-term capital shares (stock) – purchased (acquired),
- short-term bonds – purchased (acquired),
- other short-term viable securities.

Receivables are creditor's right to seek specific performance (eg. the money, things) that the debtor. Accounts of receivables (long-term or short-term) consist of:

- trade receivables,
- receivables for employees,
- receivables from social security and health insurance,
- receivables for partners and members of association,
- due from state - tax receivable,
- receivables from securities (financial assets),
- other (from the sale of enterprise, from fixed term operations, from rent, etc.).

1.2 Equities

Equities are divided into owner's equity and liabilities. Owner's equities are divided into common stocks, capital funds,

funds created by net profit and economic results. Liabilities are divided into reserves, long-term debts, short-term debts and bank credits.

A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits. Equity is the residual interest in the net assets of an entity that remains after deducting its liabilities.

Owner's equity consists especially of:

- Basic capital (Common stock, Registered capital) – monetary expression of monetary and non-monetary contributions of all partners to share capital. It is number of shares issued by an enterprise. The amount of capital depending on the provisions of the relevant law.
- Capital funds created from other resources than a net profit:
 - share premium - arises from the subscription of new shares (the difference between the higher issue price and the nominal value of the shares).
 - differences in valuation resulting from revaluation of assets and liabilities,
 - differences in valuation in transformation of enterprise.
- Funds created from a net profit:
 - reserve fund – it can be used only to cover losses or for measures that have overcome adverse economic progress,
 - statutory and other fund – their creation stems from social contracts, statutes, decisions of the General Meeting or the Board's decision. For example, funds for social fund, entertainment and gifts, etc.
- Economic result – the difference between revenues and costs:
 - undistributed (retained) profit from previous years,
 - accumulated losses from previous years,
 - economic result (profit/loss) for distribution from present (current) accounting period.

Liabilities are obligations of the debtor to the creditor for filling. They consist especially of the main types:

- long-term/short-term liabilities:
 - liabilities trade,
 - liabilities to employees,
 - liabilities to social securities and health insurance,
 - due from state - tax liabilities and subsidies,
 - liabilities to companies in the group,
 - liabilities to partners during distribution of profit,
 - liabilities from the sale of enterprise, etc.
- long-term/Short-term liabilities to bank credits (loans),
- long-term/Short-term liabilities to securities (obligations, bonds, etc.),
- other Long-term/Short-term liabilities (to the sale of enterprise, to fixed term operations, from rent, etc.).

There are exist also **Reserves** – special type of liabilities. They represent the liabilities created due to covering potential business risk (loses) in the future:

- reserves under special statutory regulations (for example for bank, insurance company or for the most business firm reserves to repair of fixed assets),
- reserves for pension and similar payables,
- reserves for income tax,
- other reserves.

As the last component of both assets and liabilities are **Accruals**. Applicable accounting regulations require entities to charge costs and revenues significantly in the accounting period to which they relate. Costs and revenues, income and expenses (expenditures) relating to future periods is necessary accruals.



Minimum compulsory information under
Regulation 500/2002 Coll.

BALANCE SHEET

in a full format

as at December 31st, 2017

(in thousand of Czech Crowns)

IC

Comercial name or other
name of an accounting unit

Registered office or adress
of an accounting unit

a	ASSETS b	Row c	Current accounting period			Previous period
			Gross 1	Adjustment 2	Net 3	Net 4
	TOTAL ASSETS (r. 02 + 03 + 37 + 74)	001	0	0	0	0
A.	Receivables from subscriptions	002	0	0	0	0
B.	Fixed assets (r. 04 + 14 + 28)	003	0	0	0	0
B. I.	Intangible fixed assets (r. 05 + 06 + 09 to 11)	004	0	0	0	0
B. I. 1	Research and development	005	0	0	0	0
2	Valuable rights (r. 07 + 08)	006	0	0	0	0
2.1	Software	007	0	0	0	0
2.2	Other valuable rights	008	0	0	0	0
3	Goodwill (+/-)	009	0	0	0	0
4	Other intangible fixed assets	010	0	0	0	0
5	Advance payments for intangible fixed assets and intangible fixed assets under construction (r. 12 + 13)	011	0	0	0	0
5.1	Advance payments for intangible fixes assets	012	0	0	0	0
5.2	Intangible fixed assets under construction	013	0	0	0	0
B. II.	Tangible fixed assets (r. 15 + 18 to 20 +24)	014	0	0	0	0
B. II. 1	Lands and Constructions (r. 16 + 17)	015	0	0	0	0
1.1	Lands	016	0	0	0	0
1.2	Constructions	017	0	0	0	0
2	Equipment	018	0	0	0	0
3	Adjustment to acquired assets	019	0	0	0	0
4	Other tangible fixed assets (r. 21 + 22 + 23)	020	0	0	0	0
4.1	Perennial corps	021	0	0	0	0
4.2	Breeding and draught animals	022	0	0	0	0
4.3	Other tangible fixed assets	023	0	0	0	0
5	Advance payments for tangible fixed assets and tangible fixed assets under construction (r. 25 + 26)	024	0	0	0	0
5.1	Advance payments for tangible fixes assets	025	0	0	0	0
5.2	Tangible fixed assets under construction	026	0	0	0	0
B. III.	Long-term financial assets (r. 28 to 34)	027	0	0	0	0
B. III. 1	Shares - controlled and controlling organizations	028	0	0	0	0
2	Loans - controlled and controlling organizations	029	0	0	0	0
3	Shares - substantial influence	030	0	0	0	0
4	Loans - substantial influence	031	0	0	0	0
5	Other securities and shares	032	0	0	0	0
6	Other loans	033	0	0	0	0
7	Other financial investments (r. 35 + 36)	034	0	0	0	0
7.1	Other financial investments	035	0	0	0	0
7.2	Advance payments for long-term financial assets	036	0	0	0	0



a	ASSETS b	Row c	Current accounting period			Previous period
			Gross 1	Adjustment 2	Net 3	Net 4
C.	Current assets (r. 38 + 46 + 68 + 71)	037	0	0	0	0
C. I.	Inventory (r. 39 + 40 + 41 + 44 + 45)	038	0	0	0	0
C. I. 1	Materials	039	0	0	0	0
2	Work in progress and semi-products	040	0	0	0	0
3	Finished products and merchandise (r. 42 + 43)	041	0	0	0	0
3.1	Finished products	042	0	0	0	0
3.2	Merchandise	043	0	0	0	0
4	Animals	044	0	0	0	0
5	Advance payments for inventory	045	0	0	0	0
C. II.	Receivables (r. 47 + 57)	046	0	0	0	0
C. II. 1	Long-term receivables (r. 48 to 52)	047	0	0	0	0
1.1	Trade receivables	048	0	0	0	0
1.2	Receivables - controlled and controlling organizations	049	0	0	0	0
1.3	Receivables - accounting unit with substantial influence	050	0	0	0	0
1.4	Deferred tax receivable	051	0	0	0	0
1.5	Other receivables (r. 53 to 56)	052	0	0	0	0
1.5.1	Receivables from partners	053	0	0	0	0
1.5.2	Long-term deposits given	054	0	0	0	0
1.5.3	Estimated receivable	055	0	0	0	0
1.5.4	Other receivables	056	0	0	0	0
2	Short-term receivables (r. 58 to 61)	057	0	0	0	0
2.1	Trade receivables	058	0	0	0	0
2.2	Receivables - controlled and controlling organizations	059	0	0	0	0
2.3	Receivables - accounting unit with substantial influence	060	0	0	0	0
2.4	Other receivables (r. 62 to 67)	061	0	0	0	0
2.4.1	Receivables from partners	062	0	0	0	0
2.4.2	Receivables from social security and health insurance	063	0	0	0	0
2.4.3	Due from state - tax receivable	064	0	0	0	0
2.4.4	Short-term deposits given	065	0	0	0	0
2.4.5	Estimated receivable	066	0	0	0	0
2.4.6	Other receivable	067	0	0	0	0
C. III.	Short-term financial assets (r. 69 +70)	068	0	0	0	0
C. III. 1	Shares - controlled and controlling organizations	069	0	0	0	0
2	Other short-term financial assets	070	0	0	0	0
C. IV.	Cash and bank accounts (r. 72 +73)	071	0	0	0	0
C. IV. 1	Cash	072	0	0	0	0
2	Bank accounts	073	0	0	0	0
D. I.	Accruals (r. 75 to 77)	074	0	0	0	0
D. I.	Deferred expenses	075	0	0	0	0
D. II.	Complex deferred costs	076	0	0	0	0
D. III.	Deferred income	077	0	0	0	0



	LIABILITIES	Row	Current period	Previos period
a	b	c	5	6
	TOTAL LIABILITIES (r. 79 + 101 + 141)	078	0	0
A.	Equity (r. 80 + 84 + 92 + 95 + 99 - 100)	079	0	0
A. I.	Registered capital (r. 81 to 83)	080	0	0
1	Registered capital	081	0	0
2	Ownership interests (-)	082	0	0
3	Changes of registered capital (+/-)	083	0	0
A. II.	Share premium and capital funds (r. 85 + 86)	084	0	0
A. II. 1	Share premium and capital funds (r. 85 + 86)	085	0	0
2	Capital funds (r. 87 to 91)	086	0	0
2.1	Other capital funds	087	0	0
2.2	Diferences from revaluation of assets and liabilities (+/-)	088	0	0
2.3	Diferences from revaluation in tranformation of companies (+/-)	089	0	0
2.4	Diferences from tranformation of companies (+/-)	090	0	0
2.5	Diferences from valuation in tranformation of companies (+/-)	091	0	0
A. III.	Funds from earnings (r. 93 + 94)	092	0	0
A. III. 1	Other reserve funds	093	0	0
2	Statutory and other funds	094	0	0
A. IV.	Profit/loss - previous years (+/-) (r. 96 to 98)	095	0	0
A. IV. 1	Retained earnings from previous years	096	0	0
2	Accumulated losses from previous years	097	0	0
3	Other profit/loss - previous years (+/-)	098	0	0
A. V.	Profit/loss - current year (+/-) /r. 01 - (+ 80 + 84 + 92 + 95 - 100 + 101 + 141)/	099	0	0
A. VI.	Decided on advance for payment of a profit share (-)	100	0	0
B. + C.	Other sources (r. 102 + 107)	101	0	0
B. I.	Reserves (r. 103 to 106)	102	0	0
B. I. 1	Reserves for pension and similar payables	103	0	0
2	Income tax reserves	104	0	0
3	Reserves under special statutory regulations	105	0	0
4	Other reserves	106	0	0
C.	Payables (r. 108 + 123)	107	0	0
C. I.	Long-term payables (r. 109 + 112 to 119)	108	0	0
C. I. 1	Issues bonds (r. 110 + 111)	109	0	0
1.1	Exchangeable obligations	110	0	0
1.2	Other bonds	111	0	0
2	Liabilities to credit institutions	112	0	0
3	Long-term advances received	113	0	0
4	Trade payables	114	0	0
5	Long-term notes payables	115	0	0
6	Payables - controlled and controlling organizations	116	0	0
7	Payables - accounting units with substantial influence	117	0	0
8	Deffered tax liability	118	0	0
9	Other payables (r. 120 - 122)	119	0	0
9.1	Payable to partners	120	0	0
9.2	Estimated payables	121	0	0
9.3	Other payables	122	0	0



	LIABILITIES	Row	Current period	Previous period
a	b	c	5	6
C. II.	Short-term payables (r. 124 + 127 to 133)	123	0	0
C. II. 1	Issues bonds (r. 125 + 126)	124	0	0
1.1	Exchangeable obligations	125	0	0
1.2	Other bonds	126	0	0
2	Payables to banks	127	0	0
3	Short-term deposits received	128	0	0
4	Trade payables	129	0	0
5	Short-term notes payables	130	0	0
6	Payables - controlled and controlling organizations	131	0	0
7	Payables - accounting units with substantial influence	132	0	0
8	Other payables (r. 134 to 140)	133	0	0
8.1	Payable to partners	134	0	0
8.2	Short-term accommodations	135	0	0
8.3	Payroll	136	0	0
8.4	Payables to social securities and health insurance	137	0	0
8.5	Due from state - tax liabilities and subsidies	138	0	0
8.6	Estimated payables	139	0	0
8.7	Other payables	140	0	0
D.	Accruals (r. 142 + 143)	141	0	0
D. I.	Accrued expenses	142	0	0
D. II.	Deferred revenues	143	0	0