

## Sixth lecture: Accounting for the creation of a company

### 3- Incorporation of the individual private enterprise

To practice a commercial activity on an individual basis, the owner of the establishment must allocate funds for this commercial activity, called “exploitation funds” and recorded in account 101, which constitutes the capital of the individual private enterprise.

The accounting registration of the process of establishing an individual private enterprise goes through one stage (unlike the establishment of a company), where it records on the debit side all the assets brought by the trader to practice the commercial activity such as Fixed asset (A/2), Inventory or stocks (A/3) third parties accounts (A/4), and Financial accounts (A/5) against recording on the credit side the amount of those assets in account 101 “exploitation funds” as shown in the following entry:

		Date		
2		Fixed asset accounts	x	
3		Inventory accounts	x	
4		Third party accounts	x	
5		financial accounts	x	
	101	Exploitation funds <b>(Incorporation of the individual private enterprise)</b>		xxxx

#### Example1

On 01/12/2017, Mr. Othman decided to establish an individual private enterprise, so he allocated an amount of 1,600,000 DA. He bought, with half the amount, a building built on land, where the amount of the building was estimated to be a quarter of the amount of the land. He put 600,000 DA in the bank and the rest in the cashbox.

#### Required

- 1) The registration of the establishment of the individual private enterprise
- 2) The opening balance sheet for merchant Othman on 01/12/2017.

#### Solution

The amount brought by the trader Othman to practice his commercial activity is the capital A/101«Exploitation funds » its amount is 1,600,000 DA.

Half of the amount is 800,000 DA used for buying a building and land where the amount of the building was a quarter (1/4) of the amount of land.

We put :  $x = \text{building amount}$  so  $4x = \text{land amount}$

So we have:  $x + 4x = 800\ 000$  so  $5x = 800\ 000$  this means  $x = 160\ 000$  DA

And therefore **building amount = 160 000**

and **land amount = 4 x 160 000 DA = 640 000 DA**

The amount that was placed in the bank is recorded in account A / 512 “current account banks”, the amount of which is 600 000 DA

The remaining amount is 200 000 DA recorded in account A/53"Cashbox"

### 1) Registration of the establishment of Othmane enterprise

		12/01/2017			
211		lands	640000		
213		buildings	160000		
512		Bank	600000		
53		Cashbox	200000		
	101	Exploitation funds			1600000
<b>(Incorporation of the individual private enterprise)</b>					

### 2) The opening balance sheet of the Partnership Company on 02/01/2005

Assets ( The uses )			Liabilities (Sources of funds)		
A.N	account name	Amount	A.N	account name	Amount
<b>Non-current Assets</b>			<b>own funds</b>		
211	lands	640000	101	Exploitation funds	1600000
213	buildings	160000		<b>non-current liabilities</b>	
<b>Current Assets</b>			<b>current liabilities</b>		
512	Bank	600000			
53	Cashbox	200000			
<b>Total assets</b>		<b>1600000</b>	<b>total liabilities</b>		<b>1600000</b>

If the exploitation funds are not sufficient when carrying out the activity to acquire fixed assets or purchase stocks, the trader can resort to borrowing and obtain a loan from the loan institutions that he records on the credit side of account 164 “loan from credit institutions ” and matches it on the debit side of the asset in which he was used.

He may also acquire Fixed asset on the account or purchase inventories on the account that are recorded with the assets on the debit side of the relevant Fixed asset or inventory account in exchange for crediting the 404 “Fixed asset suppliers” or “Inventory and services Suppliers” account with the amount of the relevant asset.

So, The accounting registration of the establishment of the individual private enterprise shall be:

		Date			
2		Fixed asset accounts	XX		
3		Inventory accounts	XX		
4		Third party accounts	X		
5		financial accounts	X		
	101	Exploitation funds			XXXXXX
	164	Loan from credit institutions			
	401	Inventory and services suppliers			
	404	Fixed asset suppliers			
<b>(Incorporation of the individual private enterprise)</b>					

**Example 2: (Continuing with Example 1)** We suppose that the merchant Othman obtains a long-term bank loan with which he buys a truck for 400,000 DA. He also buys on the account a computer for 120,000 DA, merchandise for 200,000 DA, damaged packaging for 30,000 DA, and computer software. 100 000 DA.

**Solution(Continuing with Example 1)**

the **current assets** that were purchased **on the account** are recorded as follows:

A/ 30 "Stocks of merchandise" in the amount of 200,000 DA

A/ 326 " damaged packaging " for the amount of 20,000 DA.

The sum of these amounts is recorded as a debt in A / 401 "Inventory and services suppliers" in the amount of 220 000 DA.

The **fixed assets** acquired **on the account** that represent Fixed assets are recorded as follows:

C/ 204 "Informatics Software" for the amount 100,000 DA

C / 2181 "computer" for the amount of 150,000 DA

The total of these amounts is recorded as a debt in A / 404 “ Fixed assets suppliers” in the amount of 250 000 DA.

**1)Registration of the establishment of Othmane enterprise**

		12/01/2017		
204		informatics software	100000	
211		lands	640000	
213		buildings	160000	
2181		hardware equipment (computer)	150000	
2182		transportation equipment truck)	400000	
30		merchandise stocks	200000	
326		damaged packaging	20000	
512		Bank	600000	
53		Cashbox	200000	
	101	Exploitation funds		1600000
	164	Loan from credit institutions		400000
	401	Inventory and services suppliers		220000
	404	Fixed asset suppliers		250000
<b>(Incorporation of the individual private enterprise)</b>				

## 2) The opening balance sheet of the Partnership Company on 02/01/2005

Assets ( The uses )			Liabilities (Sources of funds)		
A.N	account name	Amount	A.N	account name	Amount
	<b>Non-current Assets</b>			<b>own funds</b>	
204	informatics software	640000	101	Exploitation funds	1600000
211	lands	160000		<b>non-current liabilities</b>	
213	buildings		164	Loan from credit institutions	
2181	computer	600000		<b>current liabilities</b>	
2182	truck	200000	401	Inventory and services suppliers	
	<b>Current Assets</b>		404	Fixed asset suppliers	
30	merchandise stocks	200000		<b>total liabilities</b>	1600000
326	damaged packaging	20000			
512	Bank	600000			
53	Cashbox	200000			
	<b>Total assets</b>	1600000			

### 4- Exploiter account (A/108)

In accordance with the Entity Unit **convention** that requires the establishment's property must be separated from the property of the establishment owner, this account is created to record all payments and withdrawals made by the sole proprietor (merchant) to or from his establishment.

this account is called: “ **Exploiter account** » and his number is **108**.

#### 4-1- Fonctioning of exploiter account during the accounting cycle :

➤ This account is **debited** when a trader withdraws or use an asset for his own needs as shown in the following entry:

		Date		
108	<b>Exploiter account</b>		xxxx	
	30 Inventory accounts			X
	411 Third party accounts			X
	512 financial accounts			X
	53 cashbox			X
	<b>(withdrawing or using an asset for his own needs)</b>			

➤ This account is **credited** when the trader provides a financial asset to his establishment or pays off a debt on it from his own account as shown in the following entry:

		Date		
401		Inventory and services suppliers	xxxx	
404		Fixed asset suppliers financial accounts		X
512		Bank		X
53		cashbox		X
6x		expenses or burdens		X
	108	Exploiter account (providing a financial asset to his establishment or paying off a debt on it from his own account)		

#### 4-1- Fonctioning of exploiter account at the end of the accounting cycle :

At the end of the year, the balance of this account (whether debit or credit) is transferred to account 101 “exploitation funds” in order to balance it as shown in the following entry:

- If the balance of the account 108 “the exploiter’s account” is **debit**, the capital is **deducted**, and the registration is as follows:

		31/12/20..		
101		Exploitation funds	xx	
	108	Exploiter account (balance of Exploiter account)		xx

- If the balance of the account 108 “exploiter’s account” is a **credit**, the capital is **increased**, and the registration is as follows:

		31/12/20..		
108		Exploiter account	xx	
	101	Exploitation funds (balance of Exploiter account)		xx

**Example:** The amount of exploitation funds for the merchant Ahmed on 01/12/2017 was: 1,600,000 DA

#### 1) Record the following transactions in the journal of the trader Ahmed:

On 02/12/2017 he bought **on account** a computer for 150 000 DA and computer software for 50 000 DA.

On 06/12/2017: It became clear to the trader Ahmed that the capital was too high, so he reduced it by 400,000 DA through the bank.

On 10/12/2017: He bought industrial equipment for his company with his **own money** for 50 000 DA

On 12/15/2017: He paid **his private car insurance** from the cashbox of his establishment, at 25,000 DA.

On 12/18/2017: He paid the insurance of his shop (commercial establishment) from the cashbox at 70 000 DA

On 12/23/2017: He paid The fixed assets suppliers their dues with his **own money** .

On 12/31/2017: He took the amount of 100,000 DA for his **personal needs** from the bank.

**2) Find the balance of the exploiter's account on 12/31/2017, and transfer it to the account 101 « Exploitation funds » .**

**3) Find then the balance of the account 101 on on 12/31/2017.**

**1)The accounting registration of transactions in the journal are :**

204 20181	404	12/02/2017 informatics software hardware equipment (computer) Fixed asset suppliers (Purchase invoice no ...)	50000 150000	200000
101	512	12/06/2017 Exploitation funds Bank (Capital reduction by check no ...)	400000	400000
215	108	12/10/2017 Industrial equipment and tools Exploiter account (Purchase invoice no ...)	50000	50000
108	53	12/15/2017 Exploiter account cashbox (Cashbox receipt no ...)	25000	25000
616	53	12/18/2017 Insurance premiums cashbox (Cashbox receipt no ...)	25000	25000
404	108	12/23/2017 Fixed asset suppliers Exploiter account (Purchase invoice no ...)	200000	200000
108	512	12/31/2017 Exploiter account cashbox (Cashbox receipt no ...)	100000	100000

## 2) Balance of the exploiter's account (A/108) on 12/31/2017

debit	A/108 « the exploiter's account »		credit
(2)	25 000	50 000	(1)
(4)	100 000	200 000	(3)
<b>Account balance creditor (125 000)</b>			
<b>(Total)</b>	<b>250 000</b>	<b>250 000</b>	<b>( Total)</b>

Since the balance of the account 108 “exploiter’s account” is a **credit** the account 101 “exploitation funds” is affected by the decrease, as follows:

		31/12/20..			
108	101	Exploiter account	125000		
		Exploitation funds		125000	
		<b>(balance of Exploiter account)</b>			

## 3) Balance of the exploitation funds account (A/101) on 12/31/2017

debit	A/101 « the exploitation funds account »		credit
(2)	400 000	1 600 000	(1)
<b>Account balance creditor (1 325 000)</b>		125 000	(3)
<b>(Total)</b>	<b>1 725 000</b>	<b>1 725 000</b>	<b>( Total)</b>