

HOW THE MAIN ECONOMIC OPERATIONS INFLUENCE THE HERITAGE ELEMENTS OF THE COMPANIES

Marius Nicolae MICULESCU
Radu Dorin LENGHEL

Abstract: *The present paper presents the types of financial and economic operations and how they influence the patrimonial elements of the company included in the balance sheet and a practical example regarding the main types of operations respectively the operations that produce structural changes either of assets or liabilities and operations that produce changes. either increase or decrease in both assets and liabilities.*

Keywords: *accounting, balance sheet, accounting operations, enterprise performance, assets, liabilities, capital.*

JEL classification: M40.

I. Introduction

Thus we are faced with the principle of the double party stated by André Cibert according to which "any movement affecting any element of the balance sheet (assets, liabilities, equity) is necessarily accompanied by a movement and of the same importance on one or more elements such that the equation $A - (D + Cp) = 0$, is always respected. It actually expresses the correlation between effect (destination - utility) on the one hand and cause (origin - resource) on the other.

The analysis of the influence of the economic-financial operations generated by events and transactions on the patrimonial elements (the Balance Sheet) must also take into account the elements that determine the performances or the non-performance economic entities, which through the economic category own equity are transferred from the profit and loss account to the balance sheet. . Given that the result of the activity is a structure of equity and this (the result) is a consequence of the events and transactions that generate expenses and revenues, we will

present their influence on the balance sheet by modifying the result of the exercise in the sense of the respective increase, ie:

$$A = (Cp_0 \pm R) + D \text{ or } A = [Cp_0 + (V - Ch) + D].$$

The explanation of this approach is based on the economic reality which shows that when the income is higher than the expenses the wealth or wealth of the economic entity increases and in the opposite situation we have to do with its poverty or in other words the profit determines the increase of own capital at the end of the year compared to the financial year its beginning and the loss generates the diminution of equity.

II. The influence of the main financial and economic operations on the patrimonial elements of the company

The balance sheet as a specific procedure of the accounting method reflects the existence (status, balance) of the elements that express the financial position of the economic entity at a given time.

In order to analyze the influence of the economic operations, events and transactions on the balance sheet, it is necessary to start from an initial balance sheet and then after each operation to draw up successive balance sheets that will highlight at least two changes of equal values in the conditions of maintaining the balance sheet.

$$\text{Active (A) = Passive (P)}$$

or

$$\text{Assets (A) = Equity (Cp) + Debts (D).}$$

If we consider that a balance sheet comprises three main structures: assets, liabilities and equity and that events and transactions can cause each one to increase or decrease, it turns out that we will have 32, that is 9 possible basic records that determine changes in the financial position of the economic entity.

If we note with "A" - the asset, with "D" - Debts, with "Cp" - Equity and with "X" - the size of the change (the amount or value) generated by the economic - financial operation we will obtain 9 equations of the balance sheet which derives from the fundamental equation: $A = D + Cp$.

These equations are:

$$\text{a) } A + X - X = D + Cp$$

Only the asset in the sense of increasing one item or decreasing another item with the same value is modified.

E.g.: Cashing a customer.

$$\mathbf{b) A = (D + X - X) + Cp}$$

The debt component is modified in the sense of increase, of one debt element and the corresponding decrease and of the same value of another debt element.

E.g.: Payment of debts to suppliers on account of bank loans.

$$\mathbf{c) A = D + (Cp + X - X)}$$

Only equity is modified in the sense of increasing one element or decreasing another element with the same value.

E.g.: Increase of share capital on account of reserves.

$$\mathbf{d) A + X = (D + X) + Cp}$$

It changes in the sense of growth, an item in the asset and corresponding to the same value increase the debt.

E.g.: purchase of consumables from suppliers.

$$\mathbf{e) A - X = (D - X) + Cp}$$

It changes in the sense of decrease, an item of assets and corresponding to the same value decreases the debts.

E.g.: Payment of cash suppliers.

$$\mathbf{f) A + X = D + (Cp + X)}$$

It changes in the sense of growth, an element of the asset and corresponding to the same value increases an element of the nature of equity.

Ex. The subscription (registration of the commitment) of the capital by the shareholders.

$$\mathbf{g) A - X = D + (Cp - X)}$$

It is modified in the sense of the decrease, an asset and corresponding element decreases an element of the equity structure with the same value.

E.g.: Return of contributions (share capital) to associates.

$$\mathbf{h) A = (D - X) + (Cp + X)}$$

It changes in the sense of the decrease, an element of the nature of the debts and correspondingly increase the equity with the same value.

E.g.: Conversion (transformation) of debt into equity securities.

$$i) A = (D + X) + (Cp - X)$$

It changes in the sense of increase, an element of the debt structure and correspondingly a decrease of the equity with the same value occurs.

E.g.: Profit distribution (as an element of equity) to dividends

Example:

We consider that the Commercial Company "Student" SRL presents at the beginning of the financial year "N" the following *accounting balance*:

**Initial Balance sheet
at 31. XII N-1**

ACTIVE (A)

PASIVE (P) (D + Cp)

| NAME | AMOUNT | NAME | AMOUNT |
|---|---------------|------------------------------------|---------------|
| A1 Buildings | 100000 | P1 Share capital | 500000 |
| A2 Packaging | 10000 | P2 Suppliers | 20000 |
| A3 Banks in LEI (CBL) | 250000 | P3 Long term loans | 20000 |
| A4 Raw materials | 30000 | P4 Investment subsidies | 5000 |
| A5 short-term investment securities (bond shares) | 50000 | P5 Result of the exercise (profit) | 5000 |
| A6 Cash desk in LEI | 50000 | | |
| A7 Inventory items | 60000 | | |
| TOTAL ACTIVE | 550000 | TOTAL PASIVE | 550000 |

During the financial year "N" we consider that the following *events and transactions* (economic-financial operations) were recorded that determined changes in the financial position and the company's performance

Operation no. 1 - Permutation of ACTIV = is that economic operation that determines the **growth of an asset item** while **decreasing another asset item** (obs. The changes occur only on the assets in the balance sheet. The items in the Liabilities do not change.

Example: Cash is raised from the bank account for cash payments amounting to 50,000 lei.

Analysis of the economic operation: it is an operation that modifies the structure of the Asset in the sense of **increasing** an element of the Asset at the same time as the **decrease** of another element of the Asset.

- Modified elements:
 - **a6** Cash desk +50000 lei
 - **a3** Banks in lei -50000 lei

- Balance sheet equation: $A - Xa3 + X a6 = P$ $X=50000$ lei

\downarrow \downarrow
 CBL Cash desk

- **550000-50000+50000 = 550000**
Total balance sheet is not changed, quality kept

Balance sheet after operation no. 1

| ACTIVE | | PASIVE | |
|---|---------------|------------------------------------|---------------|
| NAME | AMOUNT | NAME | AMOUNT |
| A1 Buildings | 100000 | P1 Share capital | 500000 |
| A2 Packaging | 10000 | P2 Suppliers | 20000 |
| A3 Banks in LEI (CBL) - 50000 | 200000 | P3 Long term loans | 20000 |
| A4 Raw materials | 30000 | P4 Investment subsidies | 5000 |
| A5 short-term investment securities (bond shares) | 50000 | P5 Result of the exercise (profit) | 5000 |
| A6 Cash desk in LEI+50000 | 100000 | | |
| A7 Inventory items | 60000 | | |
| TOTAL ACTIVE | 550000 | TOTAL PASIVE | 550000 |

Operation no. 2 - Permutation of PASSIVE = is that economic operation that determines the **increase of an item from the Liabilities** concurrently with **the decrease of another item from the Liabilities** (obs. The changes occur only on the items in the Liabilities of the balance sheet. The elements of the Asset do not change)

Example: From the realized profit a reserve of 2,000 lei is constituted.
The analysis of the economic operation: it is an operation that changes the structure of the Liabilities in the sense of **increasing** an element of the Liabilities concurrently with **the decrease** of another element of the Liabilities.

- Modified elements:
 - **P5** Results of the exercise -2000 lei
 - **P6** Reserves +2000 lei (the balance sheet item **Reserves** does not appear in the balance sheet because there is no value 0 zero, but the position P6 will be added)
- Balance sheet equation: $A = P - X_{p5} + X_{p6}$
 $X=2000$ lei

\downarrow \downarrow
 Profit Reserve
- **550000 = 550000 -2000 +2000**
Total balance sheet is not changed, quality kept

Balance sheet after operation no. 2

| ACTIVE | | PASIVE | |
|---|---------------|---|---------------|
| NAME | AMOUNT | NAME | AMOUNT |
| A1 Buildings | 100000 | P1 Share capital | 500000 |
| A2 Packaging | 10000 | P2 Suppliers | 20000 |
| A3 Banks in LEI (CBL) - 50000 | 200000 | P3 Long term loans | 20000 |
| A4 Raw materials | 30000 | P4 Investment subsidies | 5000 |
| A5 short-term investment securities (bond shares) | 50000 | P5 Result of the exercise (profit)-2000 | 3000 |
| A6 Cash desk in LEI+50000 | 100000 | P6 Reserves+2000 | 2000 |
| A7 Inventory items | 60000 | | |
| TOTAL ACTIVE | 550000 | TOTAL PASIVE | 550000 |

Operation no. 3 – Volume modifiers (in the sense of growth) = is that economic operation that determines the **growth of an asset** item while **increasing another item of Liabilities** (obs. The changes occur both on the assets in the balance sheet and on

the items in Liabilities: Following the operation, the value of Total Assets and Total Liabilities is increased by the same amount and therefore the balance sheet does not change).

Example: Raw material is being purchased from a supplier in amount of 6000 lei and will be paid later.

The analysis of the economic operation: it is an operation that modifies in the sense of **growth** an element from the Active, together with **the growth** of an element also from the Passive.

- Modified elements:
 - **A4**Raw materials +6000 lei
 - **P2**Supplier +6000 lei
- Balance sheet equation: $A + a4 = P + p6$

$\downarrow \qquad \qquad \downarrow$
 Raw materials Supplier

- **550000 +6000 = 550000 +6000 Total balance sheet changes 556000=556000, quality is kept A=P**

Balance sheet after operation no. 3

ACTIVE

PASIVE

| NAME | AMOUNT | NAME | AMOUNT |
|---|---------------|---|---------------|
| A1 Buildings | 100000 | P1 Share capital | 500000 |
| A2 Packaging | 10000 | P2 Suppliers+6000 | 26000 |
| A3 Banks in LEI (CBL) - 50000 | 200000 | P3 Long term loans | 20000 |
| A4 Raw materials+6000 | 36000 | P4 Investment subsidies | 5000 |
| A5 short-term investment securities (bond shares) | 50000 | P5 Result of the exercise (profit)-2000 | 3000 |
| A6 Cash desk in LEI+50000 | 100000 | P6 Reserves+2000 | 2000 |
| A7 Inventory items | 60000 | | |
| TOTAL ACTIVE | 556000 | TOTAL PASIVE | 556000 |

| | | | |
|---|---------------|---|---------------|
| A5 short-term investment securities (bond shares) | 50000 | P5 Result of the exercise (profit)-2000 | 3000 |
| A6 Cash desk in LEI+50000 | 100000 | P6 Reserves+2000 | 2000 |
| A7 Inventory items | 60000 | | |
| TOTAL ACTIVE | 541000 | TOTAL PASIVE | 541000 |

III. Conclusions

Analyzing the changes produced by the economic-financial operations on the balance sheet, the following conclusions are drawn:

- changes in the balance sheet structures are permanent, simultaneous and instantaneous, respecting the equation $A = D + Cp$;
- the changes generated by the economic and financial operations can only modify the balance sheet structures;
- the changes can also influence structures of the profit and loss account (expenses and revenues) along with those of the balance sheet;
- balance sheet changes can only be in the asset structure or only in the structure of debt and equity (permutative operations) when the total value of the balance sheet does not change;
- concomitant (increase and decrease) changes in assets, liabilities and equity (modifying operations) when the total value of the balance sheet changes according to the meaning of the change;
- the analysis of the balance sheet changes is of interest only for didactic reasons, in the sense of understanding the balance sheet as a procedure of the accounting method.

In practice, the preparation of the successive balance sheets after each operation is not approved nor efficient, which causes the balance sheet as a financial situation to express the financial position of the economic entity at a given moment at the end of the year.

Bibliography

- [1] Miculescu Marius – Bazele contabilitatii, Editura Eurostampa 2013
- [2] *** OMFP nr. 1802/2014 pentru aprobarea Reglementărilor contabile privind situațiile financiare anuale individuale și situațiile financiare anuale consolidate
- [3] *** *Standardele internaționale de contabilitate 2000*, Editura Economică București 2000.

NOTES ON THE AUTHORS

Radu Dorin LENGHEL, PhD. in Economics, associate professor at the Department of Finance and Accounting, Faculty of Economics, Cluj-Napoca. He is the author of numerous scientific papers and books in the field of accounting, control and financial audit. At present he holds the Bachelor's and Master's degrees in the following subjects: Financial Control and Audit, Audit of Financial Statements, Internal Control and Audit, Accounting of Public Institutions, Managerial Accounting.

Marius-Nicolae MICULESCU, PhD., „Dimitrie Cantemir” Christian University Bucharest Faculty Of Management In Tourism And Commerce Timisoara, E-mail: marius.miculescu@yahoo.com.