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Cash accounting information system before and after the amendment to the Act on Accounting as of 2016

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Abstract
The aim of the article is to perform an analysis of cash accounting development and evaluate its new proposition. Cash accounting gained the status of an accounting system by the historically first Act on Accounting of 1991. As of 2003, the option to keep cash accounting was irretrievably cancelled for natural persons. Cash accounting gradually transformed from an accounting system into a marginal issue of bookkeeping without operative legal rules. Since January 2016, if the requirements explicitly stated in the Act on Accounting are met, cash accounting can be kept by legal persons. The accounting entity must not be value added tax registered, the total income must not exceed CZK 3 million, the value of its property must not exceed CZK 3 million, and it must be among the enumerated non-profit organizations. The research results confirmed that cash accounting has not returned to the status of an accounting system. In an attempt to alleviate the administrative burden for small non-profit organizations, a form of bookkeeping was created, not a fully-fledged accounting system with all the attributes of faithful and fair depiction.

Keywords: *accounting, cash book, published, summary statement*

JEL classification: *A20, M41*

1. Introduction

Accounting is a principal axis of an economic information system. Paksiová and Janhuba (2012) see accounting as a compact and irreplaceable source of information for all users. The primary task of the information system is to provide information. Internal and external users acquire answers to questions due to the available information. Tumpach and Bastincova (2014) question whether the extent of available information is sufficient for the users. They see the cause of satisfaction of the spectrum of users in extending the published information. Lysek and Dadok (1994) appreciate the complex and systematic nature of accounting. An accounting concept reflects historic traditions and erudition of its creators and reacts to the needs of practice. According to Riahi-Belkaoui (2004), accounting is a fundament of calculations of economic markers for past, present and future periods. The structure of a national accounting system is based on historical roots and specifies development phases. Zelenka and Zelenkova (2013) analyse the historical roots of Czechoslovak accounting and emphasize the built-in control mechanisms making accounting a conclusive system. The transition from a centrally planned economy to a market economy created the need for codification in the area of accounting Slosar (2008). The result was the issue of the historically first Act on Accounting of 1991. The Act on Accounting provided methodical rules, which related to the accounting entities keeping books in the double-entry or single-entry accounting systems. Accounting records are kept by accounting entities from their formation until dissolution for each accounting period. It is thus the only mandatory information system an accounting entity is required to keep continuously from its formation until dissolution (2015). Due to the parallel of economic activity and accounting, systematic units of organized information are created. Brezinova (2014) points out the interesting historical development of single-entry accounting and acknowledges that it deserves more

attention. According to Kovanicova (2005), accounting is the product of a surrounding environment. The ability to react to changes makes accounting an active system.

2. Goal and Methodology

The impulse resulting in creating the article is the new arrangement of the structure of the national accounting system. The twenty-ninth amendment to the Act on Accounting brings extensive changes, one of them being the legalization of cash accounting. The statement of reasons for this amendment refers to the demand for cash accounting from small accounting entities.

The aim of the article is to perform an analysis of its development and assess the new concept of cash accounting. Extensive research created knowledge material. An analysis of the findings made it possible to divide the development of single-entry accounting into time phases. An inseparable part of the goal was to point out the shortcomings of the new concept and create modification suggestions. The benefit of the article is to make the decision easier for the aspirants when selecting an accounting information system. This choice can, according to the statement of reasons, be relevant for many small accounting entities in the coming years. The concept of single-entry accounting consists of methodical components. Lysek and Dadok (1994) consider the methodical elements to create more detail in the concept. They question the rightness, suitability and purposefulness of the methodical elements of single-entry accounting. They, however, recognize their irreplaceable role in keeping single-entry accounting records aiming to attain a unified methodical procedure by all accounting entities.

3. Results and Discussion

Molin (2015) mentions the problematic keeping of single-entry accounting records from 2004 according to the abrogated laws. In the previous years, keeping single-entry accounting records was regarded as a relict. Its keeping had no legal basis Krbeckova and Plesnikova (2010). Sporadic information about single-entry accounting legalization created the environment of uncertainty and expectation from 2014 on.

3.1 Historical View on Single-Entry Accounting

Slosar (2008) mentions polemics on which accounting form is older. Whether single-entry or double-entry. There are historical records on both of them. Dobie (2012) documents the permanent effort of property owners to perform itemization – stocktaking throughout history. Economic entities have always needed records in a form adequate to the time period. Single-entry accounting was used for small economic entities requiring systematic and chronological data. From this aspect, single-entry accounting can be regarded as parallel to double-entry accounting. Blechova, Janouskova and Sobotovicova (2013) comment on accounting statements from the aspect of their connection to establishment of tax liability. Correctness of the data is evidenced by information from an accounting database. According to them, financial reporting of all accounting entities is a reflection of the current legislation and requirements of the users. Hrdy and Placha (2008) emphasize a significant common characteristic of accounting systems, and that is the ability to dynamically react to the changing outside environment. If an accounting system was not able to evolve, it would be doomed to abandonment for non-functionality. In history, accounting evolved impulsively.

The historically first Act on Accounting was issued in December 1991 and became effective as of the beginning of 1992. In its first part, it set the duty of accounting entities to keep accounting records in the double-entry or single-entry accounting system. Two equal

accounting systems were created. All accounting entities could keep double-entry accounting records; selected accounting entities could opt for single-entry accounting. According to this law, single-entry accounting records could be kept by both natural and legal persons. Kovanicova (2004) clarifies the system of accounting law and national control of accounting. Laws are accompanied by implementing regulations for accounting. At first these were in the form of Ministry of Finance Measures, from 2002 on they were Ministry of Finance Regulations for the individual types of accounting entities. Literature explaining the rules of single-entry accounting and examples of its keeping was published Holecek and Kleisner (1996). Methodical principles of single-entry accounting were compiled with the goal to form a functional accounting information system.

A turn in the development of single-entry accounting came in 2004. In connection with the anticipated accession of the Czech Republic to the European Union, legislative norms were repealed, amended and issued anew. This situation radically influenced single-entry accounting. An amendment to the Act abolished it for natural persons. The conditions for legal persons were limited and the option to keep it was to end on 31st December 2004. The line of keeping accounting in the full or simplified extent for all accounting entities was enforced Kovanicova (2004). With respect to small non-profit organizations which fought for survival, keeping accounting records seemed financially and organizationally very burdening. A transitional measure of the Act allowed them to continue keeping single-entry accounting records. Keeping them was not supported by legal regulations. Stejskal, Kuvikova and Matatkova (2012) emphasize the incorrectness of this approach in relation to the accounting entities which were forced to switch to accounting due to this situation.

Effective from 2008 on, the Act on Accounting was amended to allow keeping single-entry accounting records when the enumerated requirements were met, although without a legal basis. Not only laymen, but also professionals considered single-entry accounting to have been abolished. Due to lack of interest from legislators, using outdated and invalid legislation, civic associations, churches and religious legal persons, and hunting associations fought the difficulties of single-entry accounting in accordance with the legal regulations of 2003. The condition for making use of the exception was keeping single-entry accounting records as of 31st December 2003 and, at the same time, not exceeding the limit for the total income of CZK 3 million in the last closed accounting period. Stejskal, Kuvikova and Matatkova (2012) appreciate the effort of accounting entities to maintain continuity, systematic procedure and complexness in this problematic situation. Up until the end of 2015, no changes in legal regulations legalizing single-entry accounting were implemented.

Another turn came with the year 2016. In 2014, the new Civil Code became effective, which brought about a wave of recodification. It impacted non-profit organizations by defining the status of public benefit. In 2013, a new Directive of the European Parliament and of the Council on the Annual Financial Statements and Consolidated Financial Statements in the EU (2013/34/EU) was issued. The member states were obliged to implement it by July 2015 Mullerova (2014). These circumstances gave rise to the need for extensive amendment to the Act on Accounting. The endurance of non-profit organizations keeping single-entry accounting records resulted in its resurgence Brezinova (2014). Single-entry accounting has begun a new phase in 2016, which is legally supported by an act and a regulation for the accounting entities keeping single-entry accounting records.

3.2 Single-Entry Accounting in the Years 1991-2003

The newly issued Act on Accounting can be called universal. It dealt with the status connected to an accounting entity in a complex manner. It defined the basic accounting terminology, accounting systems, accounting documents, accounting periods, accounting

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entries, accounting books, valuation of assets and liabilities, depreciations, taking inventory, financial statement and other things. All legal persons were accounting entities without exception. Natural persons were concerned if they conducted business or were self-employed and, at the same time, stated their expenses spent on acquiring, procuring and maintaining income for tax purposes. The Commercial Code defined the obligation to keep double-entry accounting records for the natural persons registered with the Commercial Register. A methodical support issued under the name Ministry of Finance Measures elaborated on the requirements of correct bookkeeping. Paksiova and Janhuba (2012) describe a close connection of single-entry accounting to the tax system. They appreciate the smaller extent of necessary adjustments when compiling the financial statement, than in double-entry accounting. In relation to the anticipated accession to the European Union, a harmonization process started in accounting. From 2002 on, regulations for all types of accounting entities became effective (entrepreneurs, financial institutions, insurance companies, non-profit organizations, state and local authorities). Subsequently, a regulation concerning all accounting entities was issued allowing them to keep single-entry accounting records regardless of whether they were natural or legal persons Kovanicova (2004). The provisions concerning the single-entry accounting system stood until the end of 2003. It is a paradox that the regulation on keeping single-entry accounting records was only effective for one year.

The basic attribute of this phase is equal position of the two accounting systems. As a result of the new laws, basic principles of keeping accounting records were set, an accounting period (calendar year) was defined, and these were the periods for which accounting records were kept and a financial statement was compiled. Legal persons could keep single-entry accounting records when stipulated requirements were met. All activities concerning the subject of accounting were evidenced by accounting documents in a written form. The documents had mandatory content. The extent and content of accounting books were set. The content of accounting books was designed in a way that, if kept precisely, it was possible to establish the closing inventory of all recorded items both during and at the end of an accounting period. Single-entry accounting records could be kept in written, later in technical form. During and at the end of an accounting period, stocktaking was performed according to the liquidity of individual items. A financial statement was compiled as of the last day of an accounting period with prescribed contents and form in standardized templates. A special legal regulation which amended the requirements of keeping accounting records was the Commercial Code. It became effective as of January 1992 and its Chapter IV amended accounting of entrepreneurs. This phase lasted, with minute methodical adjustments, until the end of 2003.

3.3 Single-Entry Accounting in the Years 2004-2007

The Act on Accounting was amended and the single-entry accounting system disappeared from it together with all the related provisions Molin (2015). The regulation on keeping single-entry accounting records was also abrogated. This break-through law meant an irreversible end of single-entry accounting for natural persons. They were assigned with keeping the newly emerged tax records, which were used to determine a tax base correctly. In the Act, the term double-entry accounting was replaced with accounting. The Act on Accounting included a new version of accounting in the simplified extent. As regards methodology, Article II Transitional Measures allowed legal persons which had kept single-entry accounting records as of 31st December 2003 to switch to accounting as of 1st January 2005. This transitional law proved important, as it was renewed yearly and its effect extended over each accounting period up to 2007. This unclear situation was terminated in 2007. A new provision § 38a was added into the Act on Accounting. Effective as of January 2008, it allowed keeping single-entry accounting records without a legal basis. Bychkova and

Itygilova (2014) study the concepts of the accounting systems. In their opinion, the concepts do not correspond to the users' needs. They see the cause in an inadequate reaction of the accounting methodology development.

The basic attribute of this phase is the lack of legislative support for single-entry accounting. Single entry accounting transformed from an accounting system to keeping records without legal regulations in force. In this phase, transition from single-entry accounting to accounting began. Despite this problematic situation, there are no national or regional surveys, which would summarize the number of affected accounting entities. From the aspect of development of the accounting system, there was stagnation. The result was freezing the conditions for keeping single-entry accounting as of 31st December 2003 for further use.

3.4 Single-Entry Accounting in the Years 2008-2015

From 2008 on, the provision § 38a was in force. It allowed legal persons to continue keeping single-entry accounting records when three requirements were met. They had to be accounting entities which had kept single-entry accounting records as of 31st December 2003. The second requirement was presence in the list of accounting entities. They had to be civic associations, churches and religious societies, or church institutions, or hunting associations. The third requirement was not exceeding the total income of CZK 3 million in the last closed accounting period. The law did not return and keeping single-entry accounting records followed the cancelled legal regulations. Keeping single-entry accounting records was not permitted to newly-emerged accounting entities. Transition from accounting to single-entry accounting was also not permitted. Accounting entities which yielded to the pressure and switched to accounting in the course of 2004 could not take advantage of this situation.

The basic attribute of this phase is freezing the conditions for keeping single-entry accounting records as effective in 2003. From the aspect of development of the accounting system, it was a period of decline.

3.5 Cash Accounting Since 2016

Drachal (2014) sees accounting as an active interdisciplinary system. According to the overall concept, it is able to collect, provide and archive information. Since 2016, accounting has been divided again into two forms of keeping records. Unlike in 1992, a form of accounting has been created primarily oriented to cash flow – cash accounting. As of the first of January an amendment to the Act on accounting became effective as well as a new Regulation for accounting entities keeping cash accounting records. Neither the act nor the regulation uses the term accounting system, only cash accounting. The Act on Accounting now defines aspirants to cash accounting. Molin (2015) explains that there are four cumulative requirements that must be met simultaneously and the last requirement is alternative. An accounting entity:

- is not value added tax registered
- the total income in the last closed accounting period must not exceed CZK 3 million
- the value of its property must not exceed CZK 3 million, and
- is an association or union organization, or employers' association, or church and religious society, or church institution, or hunting association.

It is clear from the list of requirements that keeping cash accounting records is only allowed for non-profit organization legal persons. If accounting entities meet the requirements, they can keep cash accounting records from 2016 on. This situation is also relevant for newly created accounting entities, if they assume to meet these requirements in the first year of operation. If an accounting entity ceases to meet the requirements, it must switch to the double-entry accounting system in the full or simplified extent. It starts keeping double-entry

accounting records as of the first day of the accounting period following the period in which this fact is ascertained. From the aspect of being consistent with the methods, it is possible to switch back to cash accounting only after five successive accounting periods have passed. The Act prescribes the duty to keep three accounting books. A Cash Book chronologically records incomes, expenses, current items and the like sorted into main (non-profit) and economic (complementary) activities. A Book of Claims and Liabilities chronologically records debtors and creditors. Supplementary books of other property components record mostly tangible and intangible fixed assets, financial assets, stock, stamps. Closing balances of accounting books are used to compile a Summary of Incomes and Expenses and Summary of Assets and Liabilities correctly. Summaries are compiled no later than six months after an accounting period ends. They do not represent a financial statement comprised of an inseparable collection of accounting statements, but closing books. Strouhal, Pasekova and Redinova (2012) stress the importance of financial reporting with respect to the harmonization process and note that this situation has been present in accounting since the 20th century and concerns double-entry accounting. They recognize the financial and organizational difficulties of bringing harmonization into accounting of accounting entities. As for the differences between double-entry and cash accounting, the Act states which provisions of the Act do not apply to cash accounting while its ability to depict the subject of accounting and financial situation of an accounting entity faithfully and fairly remains intact. E.g. excluding chart of accounts, book depreciations, adjustments, financial statement. On the other hand, the duty to publish is emphasized. Cash accounting is connected to the duty to publish the Summary of Assets and Liabilities by means of delivering it to a public register, with which an accounting entity is registered.

The basic attribute of this phase is the absence of the accounting system of single-entry accounting. A form of accounting for a selected circle of accounting entities was established. The issued regulation sets the scope of the contents of accounting books to ensure correctly compiled summaries. Summaries should provide comprehensive information on incomes, expenses, inventory of assets and liabilities of an accounting entity. The Act on Accounting respects this situation and as for legal certainty (as opposed to the legal uncertainty of the previous year) considers keeping cash accounting records according to the legislation of 2016 appropriate.

3.6 Discussion

From the aspect of the range of accounting information, cash accounting has been assigned a lower level. It is primarily intended for economically insignificant accounting entities. Ghignoli (2006) deals with the principles of keeping cash accounting records by the church, in current terms by a non-profit organization, as evidence in resolving disputes using permanent records in a simpler form. Formation of single-entry accounting in the national system began with its recognition as an accounting system in 1991. Single-entry accounting records kept by natural or legal persons started to fulfil accounting principles. From the point of view of their size and significance, single-entry accounting was devoid of methodical elements which are characteristic for double-entry accounting with keeping books in a system of accounts. Incomes and expenses were recorded precisely and their difference is used for tax purposes. At the same time, recording assets and liabilities documented inventory and changes of inventory of property components. Single-entry accounting corresponded to the time of its creation and was the result of the influence of the outside environment. Edwards (2015) studies the influence of the outside environment on the evolution of accounting thinking. He considers the Industrial Revolution to be a significant step forward, as it also initiated a new direction in accounting theory development. This confirms the relation between the development of human thinking, knowledge and elements of systematic procedure.

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Due to changes of the environment in the Czech Republic, single-entry accounting was modified. It had to meet the requirements on information ability. Changes in legal regulations before 2003 were leading single-entry accounting to the position of a used and functional accounting system. Its output was a financial statement with accounting statements. Suranova (1998) sees the purpose of a financial statement in providing information to laymen. An accounting entity had the power to voluntarily expand its accounting statements, possibly also for laymen. Supplementary books usually included an inventory book, stock ledger, wage records, drivers' logbooks, books of adjustments and the like. Not only non-profit organizations, but also natural person entrepreneurs and the public perceived single-entry accounting as a source of information. Single-entry accounting was taught in the education system of secondary schools and universities. A vision of forming a parallel accounting system with adequate obligations was being fulfilled. If this trend had continued, there would probably be a functional and continual accounting system today with sufficient information abilities. The Slovak Republic, which also started forming single-entry accounting in the common state, never cancelled this system. The current national accounting structure is comprised, unlike in the Czech Republic, of two equal systems of double-entry and single-entry accounting. In both accounting systems, a financial statement is compiled in the form of a structured presentation of facts which are the subject of accounting. A financial statement is provided to persons using this information. In this context, Kordosova (2015) mentions the duty to publish a financial statement by delivering it to the Register of Financial Statements.

The phase of stagnation and decline harmed the single-entry accounting system. By tolerating its legal state, the instigators of the amendment presented the insignificance of certain accounting entities. The weighty decision to cancel single-entry accounting altogether was not taken. The weighty decision to return single-entry accounting to a legal state was not taken either. This situation is also a reflection of the outside environment.

The accounting system declared for non-profit organizations was not renewed in 2016. The associations, institutions and foundations specified in the Civil Code must settle for cash accounting. These non-profit organizations are legal persons, thus accounting entities. They undertake mostly non-profit activities based on public benefit and generating profits is not their goal. They are the recipients of financial resources in the form of subsidies, contributions, grants and so on. To secure the recording of balance and movement of money, it is important to keep records based on accounting principles. The amendment instigators accepted that double-entry accounting in the simplified extent is financially and organizationally taxing for these accounting entities.

By means of an extensive research and excursion into the past, the obtained findings divide the development of single-entry accounting into four incomparable phases.

Table 1: Development of single-entry accounting information systems in the years 1991-2016

Phase	Concept Elements
1991-2003	Accounting system with obligations according to the Act on Accounting. Single-entry accounting records are kept by legal and natural persons both conducting and not conducting business, if they meet requirements. Accounting period is a calendar year. Accounting transactions are documented by accounting documents, mandatory content in the Act on Accounting. Two mandatory accounting books – Cash Book and Book of Claims and Liabilities. Incomes and expenses in a Cash Book sorted for tax purposes. Book depreciations are not recorded. Duty to take inventory according to the Act on Accounting. Financial statement is comprised of the Statement of Assets and Liabilities and

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	Statement of Incomes and Expenses.
2004-2007	Single-entry accounting does not have a status. Although keeping books according to the abrogated regulations is tolerated until 2007.
2008-2015	Single-entry accounting does not have a status. Although keeping books according to the abrogated regulations is tolerated until 2015.This situation is made possible by the Act on Accounting.
2016-	Cash accounting is not an accounting system; obligations are set by the Act on Accounting. Cash accounting records are kept only by legal persons – selected non-profit organizations. Accounting period is a calendar year, business year cannot be used. Accounting transactions are documented by accounting documents, mandatory content in the Act on Accounting. Three mandatory accounting books: Cash Book, Book of Claims and Liabilities, supplementary accounting books of other property components. Incomes and expenses sorted in the Cash Book into the main and economic activity. Book depreciations are not recorded. Duty to take inventory according to the Act on Accounting. Summary of Assets and Liabilities and Summary of Incomes and Expenses close accounts. Duty to publish the Summary of Assets and Liabilities in a public register.

Source: compiled by the author

The new concept of cash accounting of 2016 has its pluses and minuses. After twelve years, accounting was legalized (revived, reintroduced, renewed). The contents of mandatory accounting books were defined. The purpose of cash accounting was defined as providing complex information on incomes, expenses, inventory of assets and liabilities. Accounting entities can keep other supplementary accounting books as necessary without limitation. Individual or summarized outputs of these books can be used to extend the range of information provided to internal and external users. By prescribing the duty to publish, it is possible to gain access to the inventory of assets and liabilities, which can be an important piece of information for the donors of non-profit organizations. Cash accounting is again in the position of a source of information for tax purposes. The Act on Accounting declares correctness of keeping accounting records by adhering to the new duties. Even though they are accounting entities, selected provisions on the Act do not apply to them. To remove vagueness, these cases are specifically listed. The concept is based on the emphasis on recording the balance and movement of money (recording incomes and expenses).

Not putting cash accounting back into the position of an accounting system can be seen as a downside. Its status is not clear; the Act does not mention an accounting system or financial statement. As Janhuba (2010) aptly observes, cash accounting has always faced many methodical shortcomings. The fact is that it does not have the same inner links and control mechanisms as double-entry accounting. The main conclusive element of cash accounting is then always stocktaking.

This downside could be removed by recognizing cash accounting as an accounting system, as it was the case previously. A possible change of requirements for using it is that the cash accounting system could be designated only for non-profit organizations. Non-profit organizations have specific requirements in the collection of laws comprising the tax system. The Civil Code brought unification of their legal forms. A change of laws on keeping accounting records of non-profit organizations could lead to unification and elimination of chaos in the given area. It can be expected that cash accounting will be subject to changes in

the coming years. There is definitely the need to unify the Summaries into one methodically unified form, so that the public register would not contain creations compiled in good faith.

Another controversial part of the new concept can be the concurrent existence of cash accounting and tax records. Tax records emerged in 2004 and they are intended only for natural person entrepreneurs. Both these information systems record assets and liabilities. To specify the contents of property elements, the legal regulations for accounting should be used. For tax records it is the Regulation on Keeping Accounting Records of Business Entities. In cash accounting it is the Regulation on Keeping Accounting Records of Non-Profit Subjects.

4. Conclusion

Elements of single-entry accounting are documented in historically remote periods. Regional and later state structures chose accounting system structures reflecting their time. The principles of single-entry accounting were embedded into the accounting law system in 1991. The path originally taken with the vision of development was abruptly diverted by the accession to the European Union. Subsequently the frozen system put into a dismal situation due to invalid legal norms became a marginal matter and it became a product of its more or less erudite users. As the time passed, the decision of 2003 proved non-conceptual (a regulation valid for one year). Acceptation of arguments and a change of environment were the cause of legalization of cash accounting in 2016.

Due to the non-conceptual verdict, cash accounting is standing at the beginning of a new developmental stage. It is likely that cash accounting will become a topic of interest for theorists and practitioners aiming to form a functional economic information system. Cash accounting will eventually be taught again in educational institutions with economic specialization. The sum of these activities could guide cash accounting through the initial stage and facilitate further progress.

To draw inspiration, it is possible to study the requirements for keeping single-entry accounting records in the Slovak Republic. The Slovak Republic has been proceeding more prudently since 1993, when they recognized the single-entry accounting system as viable and adequate for accounting entities even in the 21st century. With continuity and faithful and fair depiction in mind, a functioning system has been created that satisfies the users and provides information on the subject of accounting.

Dedication

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