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di Scienze Aziendali

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The Accounting System

International and Advanced Accounting
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RELATORE

Prof. Roberto Aprile

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Accounting Systems

In the world, we can find various bookkeeping systems related to the application of the double-entry Bookkeeping system.

In general, we can find two main categories:

- ✓ *Sistema Contabile Patrimoniale - Patrimonial Accounting System – adopted by Anglo-Saxon countries*
- ✓ *Sistema Contabile del Reddito - Income Accounting System – adopted by Italy and Germany and, in turn, in other «Latin European» countries.*

Accounting Systems

Main scientific contributions on these systems:

Sistema Contabile Patrimoniale - Patrimonial Accounting System

1920 – Besta, In Italy (Venice) – Paton, in the USA (founder of the American Accounting Association) – further practical evolutions can be found in the Anglo-Saxon countries.

Sistema Contabile del Reddito - Income Accounting System

Around 1950 and subsequent developments – Zappa in Italy (Venice), then Onida and Amaduzzi - Schmalenbach in Germany



Accounting Systems

Three practical examples on the functioning of various accounting systems will be presented, based on the recognition of a typical production cycle, starting from the acquisition of raw materials, through the production of finished goods and their sale.

The examples will conclude with the explanation of the «natural logical» structure of the income statement resulting from the accounting entries.

Patrimonial Accounting System

**Example on the functioning
of the *Patrimonial Accounting System*
according to Besta**



Patrimonial Accounting System

Example of application in a commercial company



How the Patrimonial Accounting System works according to Besta

Purchase of goods

VP +	<i>Inventory (bottle of water)</i>	0,30
VP -	<i>Cash</i>	0,30

How the Patrimonial Accounting System works according to Besta

Goods have been sold

VP +	Cash	1,00
VP -	Inventory	0,30
VE +	Profit on sales	0,70

How the Patrimonial Accounting System works according to Besta

The Income Statement that would theoretically result from such accounting recognitions would be the following:

<i>Profit on sales</i>	0,70
<i>Other costs:</i>	<u>(0,00)</u>
<i>Earnings before interest and taxes</i>	0,70

Patrimonial Accounting System

Example of application in a industrial company



How the Patrimonial Accounting System works according to Besta

Purchase of raw materials

VP +	<i>Raw Materials Inventory</i>	400.000
VP -	<i>Bank</i>	400.000

How the Patrimonial Accounting System works according to Besta

Start of the production

VP +	<i>WIP (Work in Progress) Inventory</i>	400.000
VP -	<i>Raw Materials Inventory</i>	400.000

How the Patrimonial Accounting System works according to Besta

Wages recognition

VE -	Wages	500.000
VP -	Bank	500.000

*Of which 400.000 for the production (Operations)
and 100 for S.G.&A. (Sales, Generals and Administrative) or S.G.&O.
(Sales, Generals and Others)*

How the Patrimonial Accounting System works according to Besta

Capitalization of production wages on the value of WIP

VP +	<i>WIP Inventory</i>	400.000	
VE +	<i>Wages</i>		400.000

How the Patrimonial Accounting System works according to Besta

Production cycle completed

VP +	<i>Finished Goods Inventory</i>	800.000
VP -	<i>WIP Inventory</i>	800.000

How the Patrimonial Accounting System works according to Besta

Sales of goods

VP +	<i>Bank</i>	1.100.000
VP -	<i>Finished Goods Inventory</i>	800.000
VE +	<i>Profits on sales</i>	300.000

How the Patrimonial Accounting System works according to Besta

The Income Statement that would theoretically result from such accounting recognitions would be the following:

<i>Profits on sales</i>	300.000
<i>Wages (S.G.&O.)</i>	<u>(100.000)</u>
<i>Earnings before interest and taxes</i>	200.000

Accounting Systems

**Example of the functioning
of the *Patrimonial Accounting System*
according to the *Anglo-Saxon variant***



How the Patrimonial Accounting System works according to the Anglo-Saxon variant

Purchase of raw materials

VP +	<i>Raw Materials Inventory</i>	400.000
VP -	<i>Bank</i>	400.000

How the Patrimonial Accounting System works according to the Anglo-Saxon variant

Start of the production

VP +	<i>WIP Inventory</i>	400.000
VP -	<i>Raw Materials Inventory</i>	400.000

How the Patrimonial Accounting System works according to the Anglo-Saxon variant

Wages recognition

VE -	<i>Wages</i>	500.000
VP -	<i>Bank</i>	500.000

How the Patrimonial Accounting System works according to the Anglo-Saxon variant

Capitalization of production wages on the value of WIP

VP +	<i>WIP Inventory</i>	400.000
VE +	<i>Wages</i>	400.000

How the Patrimonial Accounting System works according to the Anglo-Saxon variant

Production cycle completed

VP +	<i>Finished Goods Inventory</i>	800.000
VP -	<i>WIP Inventory</i>	800.000

How the Patrimonial Accounting System works according to the Anglo-Saxon variant

Sales of goods

VP +	Bank	1.100.000
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VE +	Revenues	1.100.000
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VE -	COGS (Cost of Goods Sold)	800.000
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VP -	Finished Goods Inventory	800.000
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How the Patrimonial Accounting System works according to the Anglo-Saxon variant

The Income Statement that would theoretically result from such accounting recognitions would be the following:

<i>Revenues</i>	1.100.000
<i>COGS</i>	(800.000)
<i>Operating Profit</i>	300.000
<i>Sales, Generals and Others – SG&O</i>	(100.000)
<i>Earnings before interest and taxes</i>	200.000

Accounting Systems

Example of functioning of the *Income Accounting System*



How the Income Accounting System works

Purchase of Raw Materials

VE -	<i>Cost of Purchase of Raw Materials</i>	400.000
VF -	<i>Bank</i>	400.000

How the Income Accounting System works

Start of the production

No entry

How the Income Accounting System works

Wages recognition

VE -	<i>Wages</i>	500.000
VF -	<i>Bank</i>	500.000

How the Income Accounting System works

Capitalization of production wages on the value of WIP

No accounting entry is recorded for the capitalization of production wages on the value of WIP.

How the Income Accounting System works

Production cycle completed

No accounting entry is recorded at the completion of the production cycle

How the Income Accounting System works

Sales of Final Products

VF +	<i>Bank</i>	1.100.000	
VE +	<i>Revenues</i>		1.100.000

How the Income Accounting System works

The Income Statement that would theoretically result from such accounting recognitions would be the following:

<i>Revenues</i>	1.100.000
<i>Costs of Raw Materials</i>	(400.000)
<i>Wages</i>	<u>(500.000)</u>
<i>Earnings before interest and taxes</i>	200.000

Final remarks

It follows that the main purpose of the *Patrimonial Accounting System* is to identify at each moment, the value of the company's assets and understand how it changes with variations in the transactions or even with market trends.

On the other hand, the purpose of the *Income Accounting System* is to define the comprehensive economic performance of the company based on realised revenues and related costs.

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