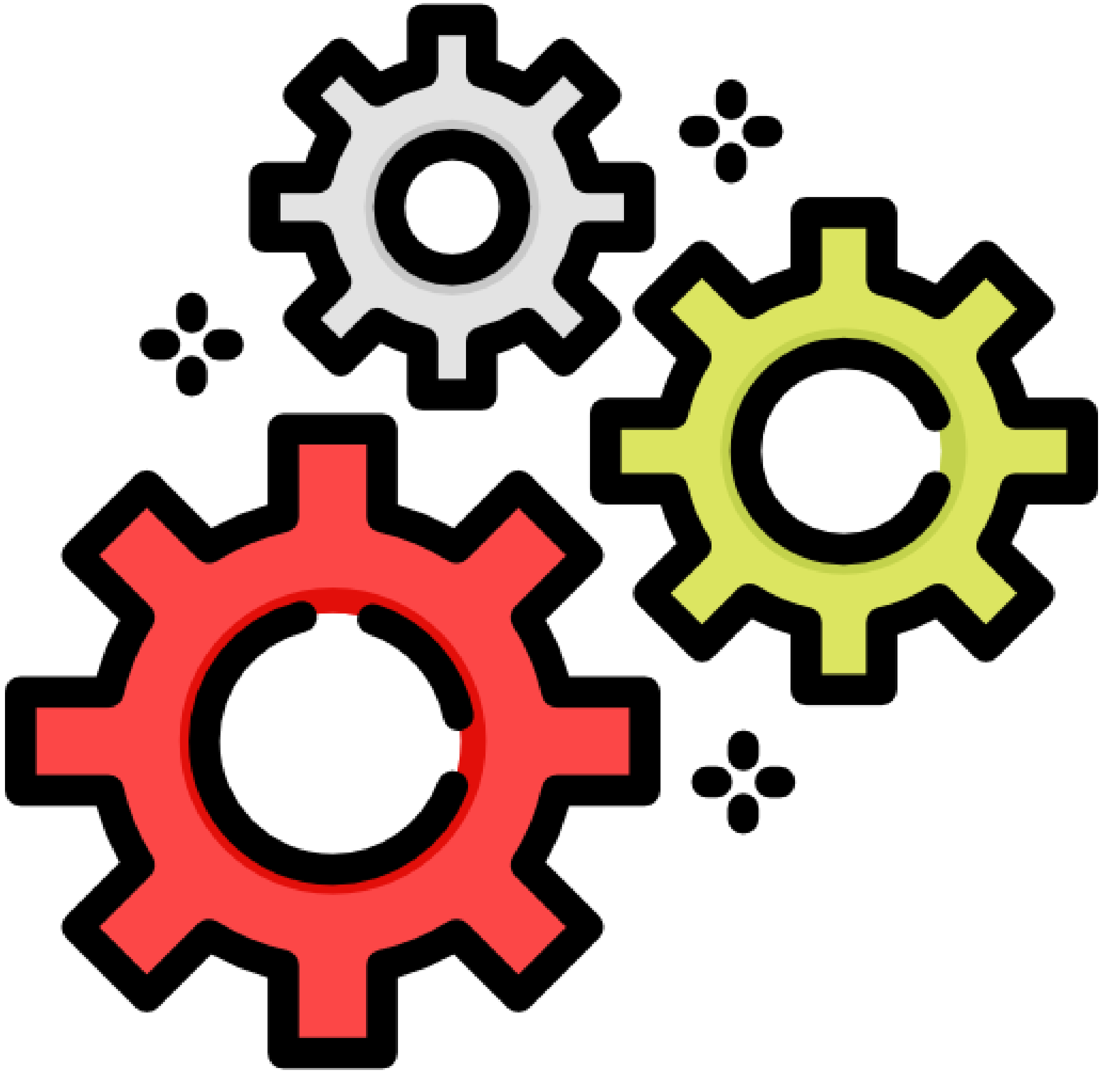


Adjustments

Adjustments

You should be aware with following adjustments

(i) Closing inventory
Dr Inventory (SFP)
Cr Cost of sales (P/L)

(ii) Depreciation charge for the year
Dr Depreciation charge (P/L)
Cr Accumulated depreciation (SFP)

(iii) Accrued expenses
Dr Expenses (P/L)
Cr Accrued expense (Liability) (SFP)

(vi) Prepaid expenses
Dr Prepaid expense (Current Asset) (SFP)
Cr Expenses (P/L)

(v) Accrued income
Dr Accrued income (Current Asset) (SFP)
Cr Income (P/L)

(vi) Income in advance / deferred income
Dr Income (P/L)
Cr Income in advance (Current Liability) (SFP)

(vii) Irrecoverable debts
Dr Irrecoverable debt expense (P/L)
Cr Receivables (SFP)

(viii) Allowance for receivables
Increase in allowance
Dr Irrecoverable debt expense (P/L)
Cr Allowance for receivables (SFP)
Decrease in allowance
Dr Allowance for receivables (SFP)
Cr Irrecoverable debt expense (P/L)

(ix) Tax estimate for the year
Dr Tax charge for the year (P/L)
Cr Current tax provision (SFP)

(x) Adjustments for prior year tax estimates
Overprovision in prior year
Dr Current tax provision (SFP)
Cr Tax charge for the year (P/L)
Under provision in prior year
Dr Tax charge (P/L)
Cr Current tax liabilities (SFP)

Basic Financial Statements

Sole Trader Financial Statements

- Statement of Profit or Loss
- Statement of Financial Position

The trail balance as at 31.12.20xx of Sahan Abeynayakas' business is as follows;

Question

Description	Dr. Rs.	Cr. Rs.
Capital 20xx.01.01		300 000
Purchases and sales	340 000	660 000
Trade debtors & trade creditors	65 000	82 000
Administration salaries	34 000	
Sales force salaries	42 000	
Carriage inwards	12 000	
stock as at 01.01.20xx	28 000	
Discount given and discount received	5 000	8 000
Fixed deposit at 8%	150 000	
Traveling expense	5 000	
Delivery vehicles (at cost)	500 000	
Sales promotional expenses	7 000	
Furniture and fittings (at cost)	60 000	
Bank loan at 12% (payable after 5 years)		200 000
Bank interest	12 000	
Accumulated depreciation as at 01.01.20xx		
Delivery vehicle		50 000
Furniture and fittings		12 000
Electricity	8 000	
Cash in hand and bank balance	44 000	
	1 312 000	1 312 000

Prepare the financial statements considering the following information;

1. Value of closing stock as at 31.12.20xx is Rs. 30 000
2. Accrued expenses as at 31.12.20xx are as follows;
   Administration expenses Rs. 2 000
   Electricity Rs. 6 000
3. Write off Rs.1 000 as bad debts as at 31.12.20xx
4. Depreciation must be provided at cost at 10% for the delivery vehicle and furniture and fittings annually.

The trial balance of Nadeeka's business as at 31.12.20xx is given below

Question

Purchases	350 000	
Sales		725 000
Buildings (at cost)	300 000	
Equipment (at cost)	40 000	
Accumulated depreciation as at 01.01.20xx		
Buildings		45 000
Equipments		6 000
Loading expenses	13 000	
Inventory as at 01.01.20xx	30 000	
Discounts given	8 000	
Discounts received		5 000
Insurance expenses	6 000	
Sales promotional expenses	42 000	
Bank loan 15%		80 000
Interest on bank loan	8 000	
Bad debts	4 000	
Trade debtors	70 000	
Trade creditors		52 000
Cash	292 000	
Capital as at 01.01.20xx		350 000
10% fixed deposit	100 000	
	1 263 000	1 263 000

Additional information are given below;

1. Closing stock as at 31.12.20xx is Rs. 40 000
2. Accrued expenses as at 31.12.20xx
   Insurance expenses 2 000
   Sales promotional expenses 3 000
3. Building and equipments must be depreciated at 5% per annum.

Required;

i. Profit or Loss Statement for the year ended 31.12.20xx
ii. Statement of Financial Position as at 31.12.20xx.

Equations to know

Watch the video and write down all the notes

Limited Liability Company Financial Statements

The required formats for published company financial statements are provided by IAS 1 Presentation of Financial Statements.

This requires the following components to be presented:

- a statement of financial position
- a statement of profit or loss a statement of other comprehensive income
- a statement of changes in equity
- notes to the financial statements, and
- a statement of cash flows.

Statement of Financial Position

Statement of financial position for XYZ Co at 31 December 20XX

	$m	$m
Non-current assets		
Property, plant and equipment	X	
Investments	X	
Intangibles	X	
	——	X
Current assets		
Inventories	X	
Trade and other receivables	X	
Prepayments	X	
Cash at bank	X	
	——	X
		——
Total assets		**X**
		——

Equity	X	
Ordinary share capital	X	
Irredeemable preference share capital	X	
Share premium	X	
Revaluation surplus	X	
Retained earnings	X	
	——	
		X
Non-current liabilities		
Loan notes		X
Current liabilities		
Trade and other payables	X	
Overdrafts	X	
Tax payable	X	
	——	
		X
		——
Total equity and liabilities		**X**
		——

Statement of Profit or Loss and Other Comprehensive Income

Statement of profit or loss and other comprehensive income for XYZ for the year ended 31 December XXXX

	$m
Revenue	X
Cost of sales	(X)
Gross profit	X
Distribution costs	(X)
Administrative expenses	(X)
Operating profit	X
Investment income	X
Finance costs	(X)
Profit before tax	X
Tax expense	(X)
Net profit for the period	X
Other comprehensive income	
Items that will not be reclassified to profit or loss in future periods:	
Gain/loss on property revaluation in the year	X(X)
Total comprehensive income for the year	**X**

Statement of Changes in Equity

Statement of changes in equity for XYZ Co

	Share capital	Share premium	Revaluation surplus	Retained earnings	Total
	$m	$m	$m	$m	$m
Balance at 1 January	X	X	X	X	X
Equity shares issued	X	X			X
Revaluation surplus in year			X		X
Net profit				X	X
Dividends paid				(X)	(X)
Bal at 31 Dec	X	X	X	X	X

Disclosure Notes

Disclosure notes are required for a variety of reasons, such as:

- to explain the accounting policies used when preparing the accounts
- to explain the movement between the opening and closing balances of major statement of financial position items
- to show how certain balances are complied, and
- to provide further detail/explanation to users of the financial statements, as necessary for the accounts to be understandable to the users.

Question

The trial balance of Crown Co as at 31 December 20X5 was as follows:

	Dr	Cr
	$	$
Ordinary share capital		100,000
Sales and purchases	266,800	365,200
Inventory at 1 January 20X5	23,340	
Returns	1,200	1,600
Wages	46,160	
Rent	13,000	
Motor expenses	3,720	
Insurance	760	
Irrecoverable debts	984	
Allowance for receivables		
1 January 20X5		588
Sundry income		1,622
Light and heat	3,074	
Bank overdraft interest	74	
Motor vehicles at cost	24,000	
– accumulated depreciation		
1 Jan 20X5		12,240
Fixtures and fittings at cost	28,000	
– accumulated depreciation		
1 Jan 20X5		16,800
Land	100,000	
Receivables and payables	17,330	23,004
Bank	3,312	
Income tax under provision	100	
Buildings at cost	100,000	
– aggregate depreciation:		
1 Jan 20X5		6,000
Retained earnings at 1 Jan 20X5		104,800
	631,854	631,854

You are given the following additional information:

1. Inventory at 31 December 20X5 was $25,680.
2. Rent was prepaid by $1,000 and light and heat owed was $460 at 31 December 20X5.
3. Land is to be revalued to $250,000 at 31 December 20X5.
4. Following a final review of the receivables at 31 December 20X5, Crown Co decided to write off another debt of $130. The entity also adjusted the allowance for receivables to $516 at 31 December 20X5.
5. Crown Co estimated that the income tax charge on profit for the year was $7,300.
6. Depreciation is to be provided as follows:
   (a) building – 2% annually, straight-line
   (b) fixtures & fittings – straight line method, assuming a useful economic life of five years with no residual value
   (c) motor vehicles – 30% annually on a reducing balance basis.

A full year's depreciation is charged in the year of acquisition and none in the year of disposal.

Required:

Prepare a statement of profit or loss and other comprehensive income for the year ended 31 December 20X5 and a statement of financial position as at that date for Crown Co.

Question

The trial balance of Penguin Co as at 31 December 20X5 was as follows:

	Dr	Cr
	$	$
Sales and purchases	20,000	50,000
Inventory	8,000	
Distribution costs	8,000	
Administration expenses	15,550	
Receivables and payables	10,000	20,000
Fundamental reorganisation costs	2,400	
Cash at bank	7,250	
Ordinary shares 50c		8,000
10% irredeemable preference shares $1		9,000
10% loan notes		8,000
Non-current assets at carrying amount	35,000	
Share premium		3,000
Accumulated profits at 1 January 20X5		3,000
Loan note Interest paid	800	
Preference dividend paid	900	
Interim ordinary dividend paid	1,600	
Tax		500
Suspense		8,000
	109,500	109,500

The following is to be taken into account.

1. A building whose carrying amount is currently $5,000 is to be revalued to $11,000.
2. A final ordinary dividend of 10c per share is to be proposed.
3. The balance on the income tax account represents an overprovision of tax for the previous year. Tax for the current year is estimated at $3,000.
4. Closing inventory is $12,000.
5. The balance on the suspense account represents the proceeds from the issue of 4,000 ordinary shares.

Prepare the following financial statements of Penguin Co for the year ended 31 December 20X5:

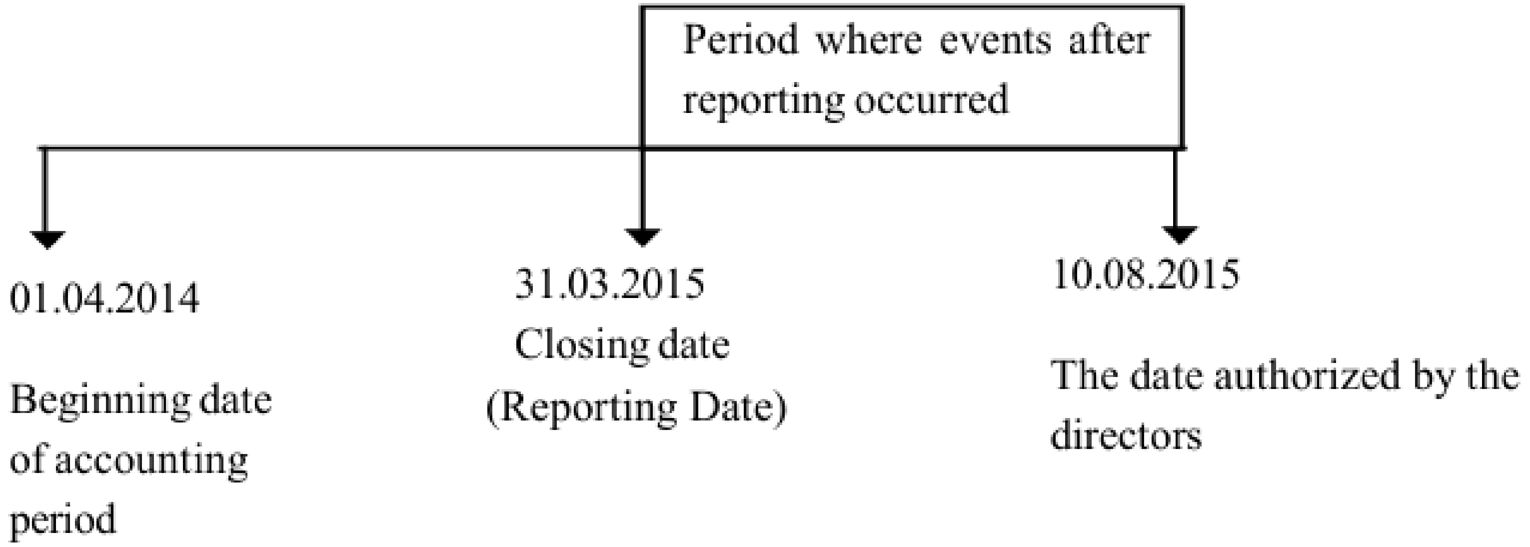
1. **statement of profit or loss and other comprehensive income**
2. **statement of financial position**
3. **statement of changes in equity.**

IAS 10
Events After Reporting Period

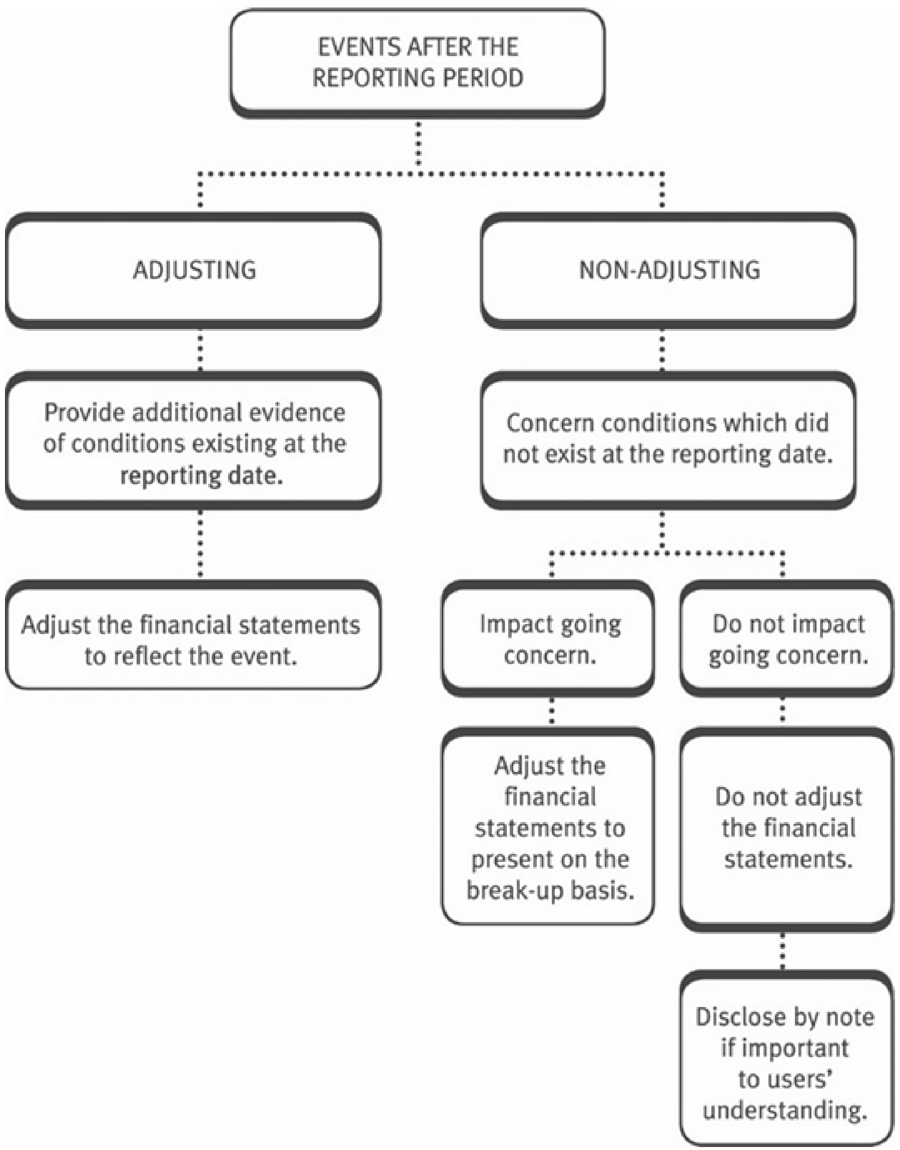
Events After Reporting Period

IAS 10 Events After the Reporting Period defines events after the reporting period as 'those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue' (IAS 10, para 3).

Events After Reporting Period



Adjusting Events and Not Adjusting Event



Adjusting Events and Not Adjusting Event – Know this

Scenario 01
"Event initiated after reporting date" →
non-adjusting, adjust in next financial statements

Scenario 2
"Event closed after authorization" →
adjust in next financial statement

Scenario 3
"Event initiated before reporting date and closed before authorization" →
could be adjusting or non-adjusting, depending if it provides evidence of a condition existing at the reporting date

Events after reporting date that **confirm conditions existing at year-end**:

- Court case settled → confirms year-end obligation
- Info showing asset was impaired at year-end
- Customer bankruptcy → confirms year-end debt uncollectible
- Sale of inventory after year-end below cost
- Insurance claim value
- Determining cost/proceeds of assets bought/sold before year-end
- Discovery of fraud or errors affecting statements

Events after reporting date that **arise from conditions after year-end**:

- Plan to discontinue operations
- Destruction of assets after year-end (fire/flood)
- Proposed dividends
- Events got closed after the authorization
- Event got initiated after the year-end

Special Situation – Threat to Going Concern

1 Going Concern Threat Identified Before Authorization

If **events after the reporting date** indicate that the business **may not continue as a going concern**:

- **Do not present assets/liabilities as current/non-current**.
- Present assets at their **realizable (net) values**.
- Present liabilities in **order of priority (secured → unsecured)**.
- Disclose the situation and its impact in the **notes to the financial statements**.

2 Going Concern Threat Identified After Authorization

- Financial statements **already issued** cannot be changed.
- Must disclose the situation using **unauthorized disclosure notes** (or subsequent events disclosure).

3 Planned Closure After More Than One Year

If the entity will **continue for more than 12 months**, then:

- **Current and non-current headings** can still be used.
- Must clearly **mention the closure plan** in the notes.

IFRS 15
Revenue from
Contract with customers

Revenue

Revenue is one of the most important figures in financial statements. While simple sales are easy to record, complex transactions—such as bundled goods/services - make revenue recognition difficult. Revenue must be shown **excluding sales tax** and any amounts collected **on behalf of others**.

Example: A travel agent selling a $3,000 holiday earns only a 10% commission. The agent records **$300 as revenue**, and the remaining **$2,700 as a payable** to the holiday company.

IFRS 15 introduces a **five-step model** to ensure consistent and transparent revenue recognition across entities.

Revenue is defined as **income earned from an entity's ordinary activities** (IFRS 15).

5 Steps

1. **Identify the contract** with the customer.

2. **Identify performance obligations** (separate goods/services).

3. **Determine the transaction price**.

4. **Allocate the price** to each performance obligation.

5. **Recognise revenue** when (or as) each obligation is satisfied.

Example

A customer buys a **computer** and **12-month technical support** for **$420** on 1 Dec 20X1. Computer standalone 300 and support standalone price 120

Step 1 – Contract
Contract for a computer + 12 months' support.

Step 2 – Performance Obligations
1. Supply of computer
2. Supply of technical support

Step 3 – Transaction Price
Total price = **$420**

Step 4 – Allocate Price
- Computer: **$300**
- Support: **$120**

Step 5 – Revenue Recognition
- **Computer**: Recognise **$300** on 1 Dec 20X1 (point in time).
- **Support**: Recognise over 12 months → 4 months (Dec–Mar) = **$40**.

Year-end (31 Mar 20X2)
- Total revenue recognised = **$340**
- Deferred income (unearned support revenue) = **$80** (120 − 40)

Disclosure

- **Revenue recognition accounting policy**.

- **Significant judgements** made when applying the 5-step model.

Ex: Identifying obligations, estimating variable amounts, allocating prices, deciding timing of revenue, and measuring progress.

- **Total revenue**, separated into meaningful categories.

Question

ABC Ltd sold and installed a machine for $900,000 on 01.04.2020 for Mr. John. $900,000 includes a 2-year servicing contract.

Machine standalone price $800,000

2-year servicing a standalone price of $400,000

Identify the steps as per IFRS 15

Question

During the year ended 30 June 20X4, AMS Co entered into the following transactions:

AMS Co agreed to sell goods to Customer A. The goods were delivered on 20 June 20X4 at a price of $1,000 plus sales tax of 20%. The cash was received from Customer A on 31 July 20X4.

AMS Co agreed to sell goods plus a 6-month maintenance agreement to Customer B at a total price of $1,500. If the goods and maintenance contract were sold separately, they would be sold for $900 and $600 respectively. The goods were supplied on 1 May 20X4, and the maintenance contract commenced on that day. Customer B paid the total amount due, plus 20% sales tax, on 15 July 20X4.

AMS Co acted as an agent on behalf of another entity to arrange the sale of goods to Customer C. The goods were delivered to Customer C on 25 June 20X4 at a total price of $600, inclusive of sales tax of 20%. AMS Co is entitled to 10% commission on the sales price as soon as the goods are delivered.

Required:

(a) How much revenue can AMS Co recognise in its financial statements for the year ended 30 June 20X4 in relation to the transaction with Customer A?

$_______

(b) How much revenue can AMS Co recognise in its financial statements for the year ended 30 June 20X4 in relation to the transaction with Customer B?

$_______

(c) How much revenue can AMS Co recognise in its financial statements for the year ended 30 June 20X4 in relation to the transaction with Customer C?

$_______

Incomplete Records

Incomplete Records

Sometimes full accounting information isn’t available. In such cases, accountants use reasonable estimates to complete the accounts. Missing figures can be found using methods like:

- **Accounting equation**
- **Balancing figure**
- **Cash/bank records**
- **Profit ratios (mark-up & margin)**

Using Equation

Cl. Assets = Cl. equity + Cl. liabilities

Cl. Assets = (Cl. share capital + Cl. retained earnings + Cl. other reserves) + Cl. liabilities

$\downarrow$

Closing RE = Opening RE ± Profit/Loss – Dividends.

Question

The statement of Andy Carp Co at 31 December 20X8 shows the following balances:

- Non-current assets – $10,000
- Current assets – $3,400
- Share capital – $200
- Non-current liabilities – $2,100
- Current liabilities – $1,700

The sales, purchases and expense records of Andy Carp Co were unfortunately destroyed and the directors need help to estimate the net profit for the year so that they can estimate its tax liability. The directors have informed you that the retained earnings of the entity at 31 December 20X7 were $7,350.

What was the profit/loss (before tax) made by Andy Carp Co for the year ended 31 December 20X8?

A $2,250

B $2,450

C $2,050

D $9,400

Using Ledger

Missing figures can be found by preparing ledger accounts and using the balancing figure.

Common examples:

- **Receivables a/c** → missing figure = credit sales or cash received
- **Payables a/c** → missing figure = credit purchases or payments
- **Bank a/c** → missing figure = drawings or cash stolen
- **Cash a/c** → missing figure = cash sales or cash stolen

Question

Receivables at the start of the accounting period for Rubble's business were $30,000. There were total receipts from customers of $55,000 of which $15,000 related to cash sales and $40,000 related to receipts from receivables. Contras with payables in the year totalled $3,000 and closing receivables were $37,000.

What were total sales for the year?

A $65,000

B $50,000

C $47,000

D $62,000

Question

The opening payables of Dastard-Lee's business were $15,000. Total payments made to suppliers during the year were $14,000. Discounts received were $500 and closing payables were $13,000.

What was the cost of total purchases for the year?

A $16,500

B $18,000

C $12,000

D $12,500

Question

The following information relates to Lee's business:

On 1 January	Electricity accrued	$250
	Rent prepaid	$300
Cash paid in the year	Electricity	$1,000
	Rent	$2,000
On 31 December	Electricity accrued	$300
	Rent prepaid	$400

What are the charges for electricity and rent in the statement of profit or loss for the year?

	Electricity	Rent
	$	$
A	1,050	2,100
B	1,050	1,900
C	950	1,900
D	950	2,100

Question

On 1 January Jude’s bank account is overdrawn by $1,367. Payments in the year totalled $8,536 and on 31 December the closing balance is $2,227 (positive).

What were total receipts for the year?

A $4,942

B $7,676

C $9,396

D $12,130

Question

On 1 January, Dale's business had a cash float of $900. During the year cash of $10,000 was banked, $1,000 was paid out as drawings and wages of $2,000 were paid. On 31 December the cash float was $1,000.

How much cash was received from customers for the year?

A $12,900

B $14,900

C $13,100

D $6,900

Using Cash

The use of bank summaries is similar to the ledger account approach. This method assumes that, whilst data may be missing from the ledger accounts, an entity can always reconstruct its cash inflows and outflows using other information such as bank pay-in in slips or bank statements, or both.

Question

During the year ended 31 July 20X9 Collins Co lost some of its accounting data due to a computer virus. Whilst it managed to reconstruct elements of its financial statements it needs some help determine sales revenue for the year.

The closing trade receivables figure at 31 July 20X8, taken from the prior year's statement of financial position, was $98,425. You have reviewed the list of receivables (the memorandum accounts) and calculated that the receivables outstanding at 31 July 20X9 total $107,550. After discussions with management you also determine that shortly prior to the year-end $1,500 of trade receivables were written off as irrecoverable.

This has not been reflected in the list of balances/memoranda. To assist you, one of your bookkeepers has performed a bank reconciliation for the year and has calculated that $245,675 was received from customers during the year. Cash till receipts confirm that $53,435 was received during the year from cash sales. The remainder constitutes receipts from credit customers.

What was revenue for Collins Co for the year ended 31 July 20X9? $............................

Using Markup or Margin

Markup

Assume 100 for Cost
Profit = Cost x %

Margin

Assume 100 for Sales
Profit = Sales x %

Question

Pat had sales of $1,000, on which a margin of 25% was made.

What was the cost of sales figure?
A $200
B $800
C $750
D $250

Question

Lazim McDuff had cost of sales of $600.

Lazim applied a mark-up of 25% when selling goods.

What was the related revenue?
A $750
B $800
C $250
D $200

Question

Jital Longhorn provides you with the following information:

Margin 5%

Opening inventory $800

Closing inventory $600

Purchases $2,840

Based upon the available information, calculate Jital's sales revenue and gross profit.

Question

Joginder Spratt's business suffered a fire during the year. Joginder provided the following information relating to the business operations:

Margin	20%
Sales	$100,000
Opening inventory	$10,000
Purchases	$82,000
Closing inventory after fire	$3,000

What was the cost of inventory lost in the fire?

A $12,000

B $9,000

C $69,000

D $5,667

Double-entries for inventory and lost inventory

Closing inventory is recorded in the general ledger as follows:

Dr Inventory (SFP)	$X
Cr Profit or loss	$X

Lost inventory will still be credited to the statement of profit or loss so that it is removed from cost of sales. However, the debit side of the entry will depend on whether or not the lost inventory has been insured:

If insured:	Dr Insurance company	$X (Other receivables/current asset)
	Cr Profit or loss	$X (Cost of sales)
If not insured:	Dr Profit or loss	$X (Expense)
	Cr Profit or loss	$X (Cost of sales)

Question

Druva lost all inventory on the premises in a fire. The unsigned business insurance policy (and therefore null and void) is still in Druva's jacket pocket. Druva supplied you with the following information relating to the business:

Mark up 25%

Sales $10,000

Opening inventory $2,000

Purchases $7,500

Based upon the available information, calculate the value of inventory destroyed and prepare the journal to record the write-off of inventory.

Statement of Cash Flows

Cash Flow Statement

A cash flow statement is a financial statement that records the cash inflows and outflows of an entity for a specific period.

Cash vs Profit

An entity can show a profit but still fail if it does not have enough cash to pay its debts. This is because profit is based on the accrual concept, where revenue and expenses are recorded even if no cash has been received or paid (e.g., credit sales, credit purchases, depreciation). Therefore, a profitable business can still face cash shortages.

Why Cash Management Important

- Ensures the business can pay its bills and meet short-term obligations.
- Prevents bankruptcy and financial stress.
- Helps maintain good relationships with suppliers and lenders.
- Allows the business to take advantage of opportunities (discounts, investments).
- Supports smooth day-to-day operations.
- Helps avoid unnecessary borrowing and interest costs.
- Ensures better planning and control over future cash needs.

Advantages & Disadvantages of Statement of Cash Flows

Advantages

- Shows actual cash generated and used during the period.
- Helps assess liquidity and short-term survival.
- Highlights the ability to generate cash from operations.
- Useful for predicting future cash flows.
- Helps identify cash flow problems early.
- Separates cash flows into operating, investing, and financing activities for clearer analysis.
- Useful for lenders and investors to assess solvency and financial health.

Disadvantages

- Does not show non-cash items (e.g., depreciation, credit transactions).
- Cannot measure profitability—only cash movement.
- Historical in nature.
- Does not show the overall financial position like the statement of financial position.

Cash Flow Statement

ABC Ltd		
Statement of cash flows for the period ended XX.XX.XXXX		
Cash flows from operating Activities		
…	xx/(xx)	
…	xx/(xx)	
…	xx/(xx)	
Net Cash flows from operating activities		xx/(xx)
Cash flows from investing Activities		
…	xx/(xx)	
…	xx/(xx)	
…	xx/(xx)	
Net Cash flows from investing activities		xx/(xx)
Cash flows from financing Activities		
…	xx/(xx)	
…	xx/(xx)	
…	xx/(xx)	
Net Cash flows from financing activities		xx/(xx)
Net increase (decrease) in cash and cash equivalents		xx/(xx)
Cash and cash equivalents at the beginning of the period		xx/(xx)
Cash and cash equivalents at the end of the period		xx/(xx)

Cash Flows from Operating Activities

✅ **Cash Flows from Operating Activities (Day-to-day business activities)**

Examples:

- Cash received from customers
- Cash paid to suppliers
- Cash paid for wages and operating expenses
- Cash received from royalties, fees, commissions
- Cash paid/received for trading inventory
- Interest paid
- Tax paid

Cash Flows from Investing Activities

✅ **Cash Flows from Investing Activities (Buying/selling long-term assets)**

Examples:

- Purchase of property, plant & equipment (PPE)
- Sale of PPE
- Purchase of long-term investments (shares, bonds, etc.)
- Sale of long-term investments
- Loans given to other parties
- Cash received from repayment of loans given
- Purchase/sale of intangible assets (e.g., patents)
- Interest received
- Dividend received
- Rent received

Cash Flows from Financing Activities

✅ **Cash Flows from Financing Activities (Raising and repaying capital)**
Examples:

- Proceeds from issuing shares
- Payment of dividends to shareholders
- Proceeds from borrowings (bank loans taken)
- Repayment of bank loans
- Payment of lease liabilities (principal portion)
- Buyback of shares (treasury shares)

Cash & Cash Equivalent

✅ **Cash and Cash Equivalents (IAS 7 definition)**

Short-term, highly liquid investments readily convertible to cash with **original maturity of 3 months or less** and **insignificant risk of value change**.

Examples:

- Cash at bank
- Cash in hand
- Treasury bills (3 months or less)
- 3-month fixed deposits (FDs)
- Less/minus overdraft from positive balances

Direct Method

Operating Activities		
Cash sales	xxx	
Debtor receipts	xxx	
Cash purchase	(xx)	
Payments to suppliers	(xx)	
Cash payment for administration expenses	(xx)	
Cash payment for distribution expenses	(xxx)	
Cash payment for other operating expenses	(xx)	
Cash generated from / used in operating activities	xx	
Interest paid	(xx)	
Tax paid	(xx)	
Net cash flows generated from / used in operating Activities		xx

Method 01 (Direct Method)

Cashflows from Operating Activities

Indirect Method

Operating Activities		
Profit Before Tax	xx	
Adjustments		
Depreciation of property plant and equipment	xxx	
Loss on disposal of property plant and equipment	xxx	
Profit on disposal of property plant and equipment	(xxx)	
Interest expense	xx	
Interest income, rent income, Dividend income	(xxx)	
Operating profit before working capital changes.	xx	
Changes in inventories(Difference between opening and closing balance)		
Changes in Trade receivables (Difference between opening and closing balance)	x/(x)	
Changes in prepaid expenses (Difference between opening and closing balance)	x/(x)	
Changes in Trade payables (Difference between opening and closing balance)	x/(x)	
Changes in accrued expenses (Difference between opening and closing balance)	x/(x)	
Cash generated from / used in operating activities	x	
Interest paid	(x)	
Tax paid	(x)	
Net cash flow generated from / used in operating activities		xx

Cashflows from Operating Activities

Method 02 (Indirect Method)

Question

Cash sales	100,000
Cash receipt from debtors	80,000
Cash purchase	70,000
Cash payment for creditors	30,000
Cash payment for operating expenses	20,000
Interest paid	3,000
Tax paid	2,000
Cash receipt from sales of PPE	10,000
Dividend received	15,000
Purchase of PPE	7,000
Obtained loan	50,000
Paid loan installment (except interest)	10,000
Dividend paid	2,000
Opening cash and cash equivalent	25,000

Prepare the cashflow statement using the direct method

Credit sales	150,000
Credit purchase	50,000
Unpaid operating expenses	5,000
Interest to be paid	2,000
Tax to be paid	1,000
Profit on sales of PPE	3,000
Dividend to be received	5,000
Increase in inventory	20,000
Depreciation	4,000

Prepare the statement of profit or loss (use the information from previous question as well)

Prepare the cashflow statement using the indirect method (use the information from previous two questions)

Question

The statements of financial position of Cash Co were as follows:

	20X7	20X6
	$	$
Non-current assets	149,364	153,364
Inventories		
Receivables	346,000	265,840
Cash	165,166	
	660,530	419,204

	20X7	20X6
	$	$
Share capital	200,000	200,000
Reserves	141,640	
	341,640	200,000
Current liabilities	318,890	219,204
	660,530	419,204

Extracts from the statement of profit or loss for the year ended 31 December 20X7:

	$	$
Revenue		1,589,447
Cost of sales:		
Purchases (no inventory)	1,105,830	
Wages and salaries	145,900	
		(1,251,730)
Administration:		
Operating costs	96,077	
Salaries	100,000	
		(196,077)
Operating profit and retained profit for the year		141,640

Additional information

1 Current liabilities consist of

	20X7	20X6
	$	$
Trade and other payables	258,240	210,564
Wages accrued	14,650	8,640

Calculate the net cash flow from operating activities using the direct method for the year ended 31 December 20X7.

Question

You are given below, in summarised form, the accounts of Algernon, an entity, for 20X7 and 20X6.

	31 December 20X7			31 December 20X6		
	Cost	Dep'n	CA	Cost	Dep'n	CA
	$	$	$	$	$	$
Plant	11,000	5,000	6,000	10,000	4,000	6,000
Buildings	90,000	11,000	79,000	50,000	10,000	40,000
			85,000			46,000
Investments at cost			80,000			50,000
Land			63,000			43,000
Inventory			65,000			55,000
Receivables			50,000			40,000
Cash at bank						3,000
			343,000			237,000
Ordinary shares of $1 each			50,000			40,000
Share premium			14,000			12,000
Revaluation surplus (land)			20,000			–
Retained earnings			45,000			45,000
10% Loan notes			150,000			100,000
Payables			60,000			40,000
Bank			4,000			–
			343,000			237,000

Statement of profit or loss for the years ended 31 December:

	20X7	20X6
	$	$
Sales	200,000	200,000
Cost of sales	(120,000)	(100,000)
	80,000	100,000
Expenses	(47,000)	(50,000)
	33,000	50,000
Interest	(13,000)	(10,000)
Net profit for year	20,000	40,000

Notes:

A $20,000 dividend has been paid in the year.

Required:

(a) **Prepare a statement of cash flows for Algernon for the year ended 31 December 20X7, to explain as far as possible the movement in the bank balance.**

The statement of cash flows should be prepared using the direct method.

Question

Statement of financial position of Geronimo at 31 December

	20X6	20X5
	$000	$000
Non-current assets	1,048	750
Accumulated depreciation	(190)	(120)
	858	630
Current assets		
Inventory	98	105
Trade receivables	102	86
Dividend receivable	57	50
Cash at Bank	42	18
	299	259
Total assets	1,157	889
Equity and liabilities:		
Share capital	200	120
Share premium	106	80
Revaluation surplus	212	12
Retained earnings	283	226
	801	438
Non-current liabilities:		
Loan	200	300
Current liabilities:		
Trade payables	77	79
Interest accrual	3	5
Tax payable	76	67
	156	151
Total equity and liabilities	1,157	889

Statement of profit or loss for of Geronimo for the year ended 31 December 20X6

	$000
Sales revenue	1,100
Cost of sales	(678)
Gross profit	422
Operating expenses	(309)
Operating profit	113
Investment income	
– interest	15
– dividends	57
Finance charge	(22)
Income tax	(71)
Net profit for year	92

- Operating expenses include a loss on disposal of non-current assets of $5,000.
- During the year an item of plant was disposed of. The plant originally cost $80,000 and had accumulated depreciation to the date of disposal of $15,000.

Prepared the statement of cash flows using the indirect method

Question

An extract of an entity's statement of cash flows is shown below:

	$000
Profit before tax	1,255
Loss on disposal	(455)
Increase in receivables	(198)
Increase in payables	340

The following criticisms of the extract have been made:

1 The loss on disposal should have been added, not deducted.

2 Increase in receivables should have been added, not deducted.

3 Increase in payables should have been deducted, not added.

Which of the criticisms is valid?

A 1, 2 and 3

B 1 only

C 2 and 3 only

D none of them

Question

Which of the following could appear in an entity's statement of cash flows?

1 Proposed dividend

2 Dividends received

3 Bonus issue of shares

4 Surplus on revaluation of non-current assets

A 1 and 2

B 1,2 and 3

C 2 only

D 2 and 3

Question

The following details were provided by Caddyshack Co which had a profit before tax of $434,850 for the year ended 31 December 20X6.

1 Depreciation of $37,400 was charged to the statement of profit or loss; this included an amount of $7,600 which was the loss on disposal of a non-current asset.

2 Finance costs of $35,000 were charged to the statement of profit or loss.

3 The following extract of the statement of financial position at 31 December 20X6 and 20X5 was provided:

	31 Dec 20X6	**31 Dec 20X5**
	$000	$000
Inventory	145	167
Trade receivables	202	203
Prepayments	27	16
Trade payables	196	212
Interest payable	6	28

What was the cash generated from operations?

A $468,250

B $511,250

C $476,250

D $503,250