

Workbook



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Equity

General

Questions

Exercise 1

The following are select end-of year balances of ABC Inc. and its income statement for 20X2:

<i>As at 31 December (CU)</i>	<i>20X2</i>	<i>20X1</i>
<i>Accounts receivable</i>	125	100
<i>Inventory</i>	55	25
<i>Accounts payable</i>	88	66
<i>For the year ending 31 December (CU)</i>		
<i>Revenues</i>	324	
<i>Cost of sales</i>	(247)	
<i>Profit for the year</i>	77	

Required

Based on this information, prepare the section in the cash flow statement that reports the cash generated from (or used in) operating activities, using the direct method.

Exercise 2

The following are select end-of year balances of BCD Inc. and its income statement for 20X2:

As at 31 December (CU)	20X2	20X1
Accounts receivable	110	125
Inventory	25	55
Accounts payable	66	90
For the year ending 31 December (CU)		
Revenues	324	
Cost of sales	(247)	
Depreciation expense	(42)	
Profit for the year	35	

Required

Based on this information, prepare the section in the cash flow statement that reports the cash generated from (or used in) operating activities using the direct method.

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Exercise 3

The following are select end-of year balances of CDE Inc. and its income statement for 20X2:

As at 31 December (CU)	20X2	20X1
Accounts receivable	125	100
Inventory	55	25
Accounts payable	88	66
For the year ending 31 December (CU)		
Revenues	324	
Cost of sales	(247)	
Profit for the year	77	

Required

Based on this information, prepare the section in the cash flow statement that reports the cash generated from (or used in) operating activities, using the indirect method.

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Exercise 4

The following are the relevant end-of year balances of EFG Inc. and its income statement:

As at 31 December (CU)	20X2	20X1
Accounts receivable	110	125
Inventory	25	55
Accounts payable	66	90
For the year ending 31 December (CU)		
Revenues	324	
Cost of sales	(247)	
Depreciation expense	(42)	
Profit for the year	35	

Required

Based on this information, prepare the section in the cash flow statement that reports cash generated from (or used in) operating activities, using the **indirect** method.

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Exercise 5

The following are select end-of year balances of FGH Inc. and its income statement:

Income statement for the year ending 31 December (CU)	20X2
Revenues	423
Cost of sales	(187)
General and administrative expense	(94)
Depreciation expense	(36)
Profit before tax	106
Tax expense	(21)
Profit for the year	85

Required

Based on this information, prepare the section in the cash flow statement that reports cash generated from (or used in) operating activities using the indirect method.

Exercise 6

Exercise GHI – Indirect Method for Cash From Operations

The following are the relevant end-of year balances of GHI Inc. and its income statement:

Balance sheet as at 31 December (CU)	20X2	20X1
Accounts receivable	141	125
Accounts payable	66	92
Provision for legal disputes	18	24
Interest payable	8	10
Tax payable	52	46

Income statement for the year ending 31 December (CU)	20X2
Revenues	423
Cost of sales	(187)
General and administrative expense	(94)
Depreciation and amortisation expense	(28)
Profit before finance cost	114
Interest expense	(15)
Profit before tax	99
Tax expense	(20)
Profit for the year	79

Required

Based on this information, prepare the section in the cash flow statement that reports cash generated from (or used in) operating activities, using the **indirect method**.

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Exercise 7

The following are selected end-of year balances from ABC Inc's balance sheet together with its income statement for 20X2:

As at 31 December (CU)	20X2	20X1
Accounts receivable	125	100
Inventory	55	25
Accounts payable	88	66
For the year ending 31 December (CU)		
Revenue	324	
Cost of sales	(247)	
Profit for the year	77	

Required

Prepare the section in the cash flow statement that reports the cash generated from (or used in) operating activities using the direct method.

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Exercise 8

Exercise IJK – Cash From Investing Activities

The following are selected end-of year balances from IJK Inc's balance sheet together with its income statement for 20X2:

Balance sheet as at 31 December (CU)	20X2	20X1
Property plant & equipment (PP&E) – cost	120	125
Accumulated depreciation	(43)	(41)
Carrying amount	77	84
<i>Additional information:</i>		
Carrying amount of PP&E sold	12	
Original cost of PP&E sold	20	

All purchases of PPE, if any, were paid for in cash. The sale of PPE was a cash sale.

Income statement for the year ending 31 December (CU)	20X2
Revenue	423
Cost of sales	(187)
General and administrative expense (including depreciation expense)	(114)
Profit on disposal of PP&E	<u>8</u>
Profit for the year	130

Required

Based on this information, prepare the section in the cash flow statement that reports:

1. 'cash generated from (or used in) **investing activities**'; and
2. 'cash generated from (or used in) **operating activities**', using the *indirect* method.

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Exercise 9

Exercise JKL – Cash From Investing Activities

The following are selected end-of year balances from JKL Inc's balance sheet together with its income statement for 20X2:

Balance sheet as at 31 December (CU)	20X2	20X1
Property plant & equipment (PP&E) – cost	160	125
Accumulated depreciation	(66)	(41)
Carrying amount	94	84
Payables - Suppliers of PP&E	3	10
Additional information:		
Carrying amount of PP&E sold	12	
Original cost of PP&E sold	18	
Impairment loss recorded during the year	7	

Income statement for the year ending 31 December (CU)	20X2
Revenue	423
Cost of sales	(187)
General and administrative expense (including depreciation expense and impairment loss expense)	(114)
Loss on disposal of PP&E	(3)
Profit for the year	119

Required

Based on this information, prepare the section in the cash flow statement that reports:

1. 'cash generated from (or used in) **investing activities**'; and
2. 'cash generated from (or used in) **operating activities**', using the *indirect* method.

Exercise 10

Exercise KLM – Cash From Investing Activities

The following are selected end-of year balances from KLM Inc's balance sheet together with its income statement for 20X2:

Balance sheet as at 31 December (CU)	20X2	20X1
Financial assets	160	125
Additional information:		
Cost of financial assets sold	12	

The financial assets are measured at cost.

All purchases and sales of financial assets during 20X2 were **cash purchases** and **cash sales**.

Income statement for the year ending 31 December (CU)	20X2
Revenue	423
Cost of sales	(187)
General and administrative expense	(114)
Gain on disposal of financial assets	10
Profit for the year	132

Required

Based on this information, prepare the section in the cash flow statement that reports:

1. 'cash generated from (or used in) **investing activities**'; and
2. 'cash generated from (or used in) **operating activities**', using the *indirect* method.

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Exercise 11

Exercise LMN – Cash From Investing Activities

The following are selected end-of year balances from LMN Inc's balance sheet:

<i>Balance sheet as at 31 December (CU)</i>	<i>20X2</i>	<i>20X1</i>
<i>Investment in associate companies</i>	<i>217</i>	<i>228</i>
<i>Financial assets other than loans (at cost)</i>	<i>120</i>	<i>155</i>
<i>Loans to associate companies</i>	<i>43</i>	<i>28</i>
<i>Interest receivable on these loans</i>	<i>4</i>	<i>3</i>
<i>Additional information:</i>		
<i>Cost of financial assets purchased for cash</i>	<i>12</i>	
<i>Loans repaid by associate companies</i>	<i>8</i>	
<i>Cash dividend received from associate companies</i>	<i>11</i>	

The following is LMN's income statement for 20X2:

<i>Income statement for the year ending 31 December (CU)</i>	<i>20X2</i>
<i>Revenue</i>	<i>423</i>
<i>Cost of sales</i>	<i>(187)</i>
<i>General and administrative expense</i>	<i>(114)</i>
<i>Loss on disposal of 'financial assets other than loans'</i>	<i>(10)</i>
<i>Profit before finance</i>	<i>112</i>
<i>Interest income</i>	<i>5</i>
<i>Profit before tax</i>	<i>117</i>
<i>Tax expense (in this question, the tax expense = tax paid)</i>	<i>(29)</i>
<i>Profit for the year</i>	<i>88</i>

Additional information:

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- 1) The 'investments in associates' has been accounted for using the equity method.

This method involves the 'investment in associates' account being:

- debited with LMN's share of the associate's profit and
- credited with LMN's share of the associate's dividends declared.

- 2) The associate reported a profit of zero for the year.

Accordingly, the reduction in the balance on the 'investments in associates' simply represents LMN's share of the dividend declared by the associate.

- 3) This dividend from the associate was received in cash.

- 4) No further investments in associates were made during the year.

Required

Based on this information, prepare the following sections in the cash flow statement:

1. 'cash generated from (or used in) **investing** activities'.
2. 'cash generated from (or used in) **operating** activities', using the *indirect* method.

Note:

LMN's policy is to classify interest received in the CFI section of the statement of cash flows.

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Exercise 12

Exercise MNO – Cash From Financing Activities

The following are selected end-of year balances from MNO Inc's balance sheet together with its income statement for 20X2:

Balance sheet as at 31 December (CU)	20X2	20X1
Short-term borrowing	47	55
Long-term borrowing	181	162
Interest payable w.r.t. these loans	12	8
Share capital	300	280
Retained earnings	534	478

Additional information:

- Repayment of borrowings: CU 55.
- Shares repurchased during the year: CU 10.
- All movements in the share capital account were cash transactions.
- There were no transfers in or out of the retained earnings.
- Any dividends declared were paid in cash.

Income statement for the year ending 31 December (CU)	20X2
Revenue	423
Cost of sales	(187)
General and administrative expense	(114)
Profit before finance	122
Interest expense	(20)
Profit before tax	102
Tax expense (also = tax paid)	(21)
Profit for the year	81

Required

Based on this information, prepare the section in the cash flow statement that reports

- 'cash generated from (or used in) **financing activities**'.

Note:

LMN's policy is to classify interest paid in the CFF section of the statement of cash flows.

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Exercise 13

Exercise NOP – Comprehensive Question

Required: Prepare, using the indirect method, a complete cash flow statement for NOP Inc based on the following information:

INCOME STATEMENT FOR THE YEAR ENDING 31/12/2020		
Revenue	19,921	
Cost of sales	(4,693)	
Gross profit	15,228	
Operating expenses	(9,211)	
Profit before interest	6,017	
Interest expense	(1,283)	
Profit before tax	4,734	
Tax expense	(1,184)	
Profit for the year	3,550	

BALANCE SHEET AS AT	31.12.20	31.12.19
Non-current assets		
PPE	17,639	24,727
Right-of-use assets	5,415	0
Intangible assets	1,550	2,100
	24,604	26,827
Current assets		
Inventory, at lower of cost or market value	1,234	1,602
Accounts receivable, net of allowance for doubtful debt	754	610
Prepayments	50	40
Cash	11,166	210
	13,204	2,462
TOTAL ASSETS	37,808	29,289

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BALANCE SHEET <i>continued</i> ...	31.12.20	31.12.19
Non-current liabilities		
Bond payable	18,315	18,033
Lease payable	5,291	0
	<u>23,606</u>	<u>18,033</u>
Current liabilities		
Lease payable	208	0
Provisions - allowance for warranty	83	72
Accounts payable	893	822
Unearned revenue	227	121
	<u>1,411</u>	<u>1,015</u>
Total Liabilities	25,017	19,048
BALANCE SHEET <i>continued</i> ...	31.12.20	31.12.19
Total Liabilities (brought forward)	25,017	19,048
Equity		
Share capital	8,000	6,000
Retained earnings	4,791	4,241
Total Equity	12,791	10,241

TOTAL LIABILITIES AND EQUITY	<u>37,808</u>	<u>29,289</u>
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Additional information:

Operating expenses include:

Depreciation of PPE	2,838
Loss on disposal of building and land	250
Depreciation of right-to-use asset	285
Amortisation of intangible assets	300
Impairment of intangible assets	250
Salaries	4,900
Bad debt expense	66
Repairs	132
Insurance expense	190
	<hr/>
	9,211

2. Right-to-use Asset

To replace one of the buildings it sold during the year (see #3), NOP entered into a 20-year lease agreement for a similar property, effective from 1/1/2020.

The lease requires NOP to make an annual payment of CU 402 on 31/12 of each year.

Half of this payment represents interest.

Interest paid is classified within the 'cash from financing activities' section of the cash flow statement.

The inception of the lease did not involve any exchange of cash.

3. Disposal of building and land

During the current year, NOP sold building and related land.

At the time of the disposal, the carrying amount of this asset was CU 4,250.

4. Dividends

NOP declared and paid cash dividends during 2020.

The company classifies dividends paid as 'cash flows from financing activities'.

5. Bond Payable

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On 1/1/2016, NOP borrowed CU 17,056 from the owners of NOP (being three brothers of the Litvak family).

In this regard, it issued a 10-year bond with a face value of CU 20,000.

The bond paid an annual coupon of CU 800 at the end of each year.

The effective interest rate on this bond is 6%.

Interest paid is classified in the 'cash from financing activities' section of the cash flow statement.

6. Tax payable

- **As at 31.12.19 tax payable was CU 35.**
- **On 31.12.20 this balance stood at CU 55.**
- **These balances are included within accounts payable.**

*For the solution see the videos