Module 1

ACCOUNTING: AN INTRODUCTION

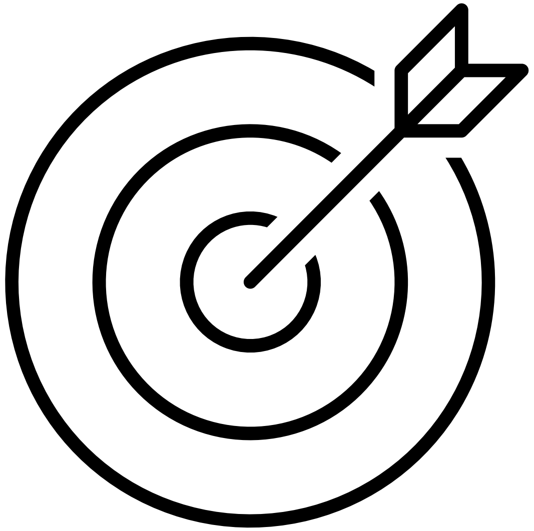
Module 1 - Accounting: an introduction

Learning outcomes:

At the end of this module, you should have an understanding of:

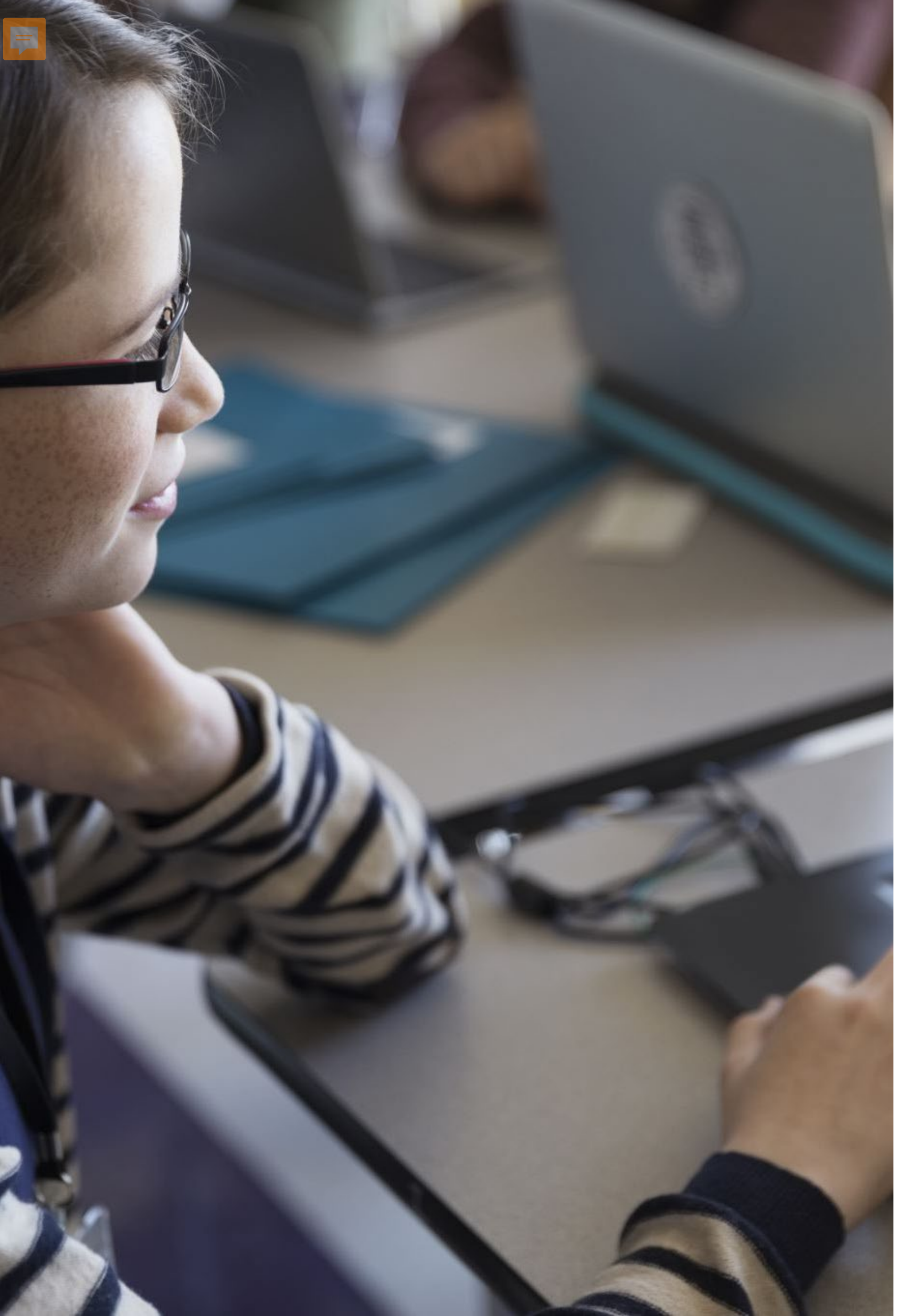
- What accounting is, and why it is important
- How to prepare a straightforward balance sheet
- How to prepare a simplified income statement
- How to prepare a simplified cash flow statement
- How to enter your transactions on an accounting worksheet

Module 1 - Accounting: an introduction



Overall objectives are:

- Introduce accounting and the three financial statements
- Introduce the accounting worksheet and the accounting equation



Module 1 – Topics

1.1 What is accounting?

1.2 Objectives of the financial statements

1.3 Users and their needs

1.4 Separating your economic transactions from your personal transactions

1.5 Definitions and explanations used in this module

1.6 Illustrative example

1.7 Recording transactions using an accounting worksheet

1.8 Exercises

1.1 What is accounting?

Accounting supplies information which decision -makers rely on in the allocation of scarce resources.

Transactions take place

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Transactions take place

Record the transactions

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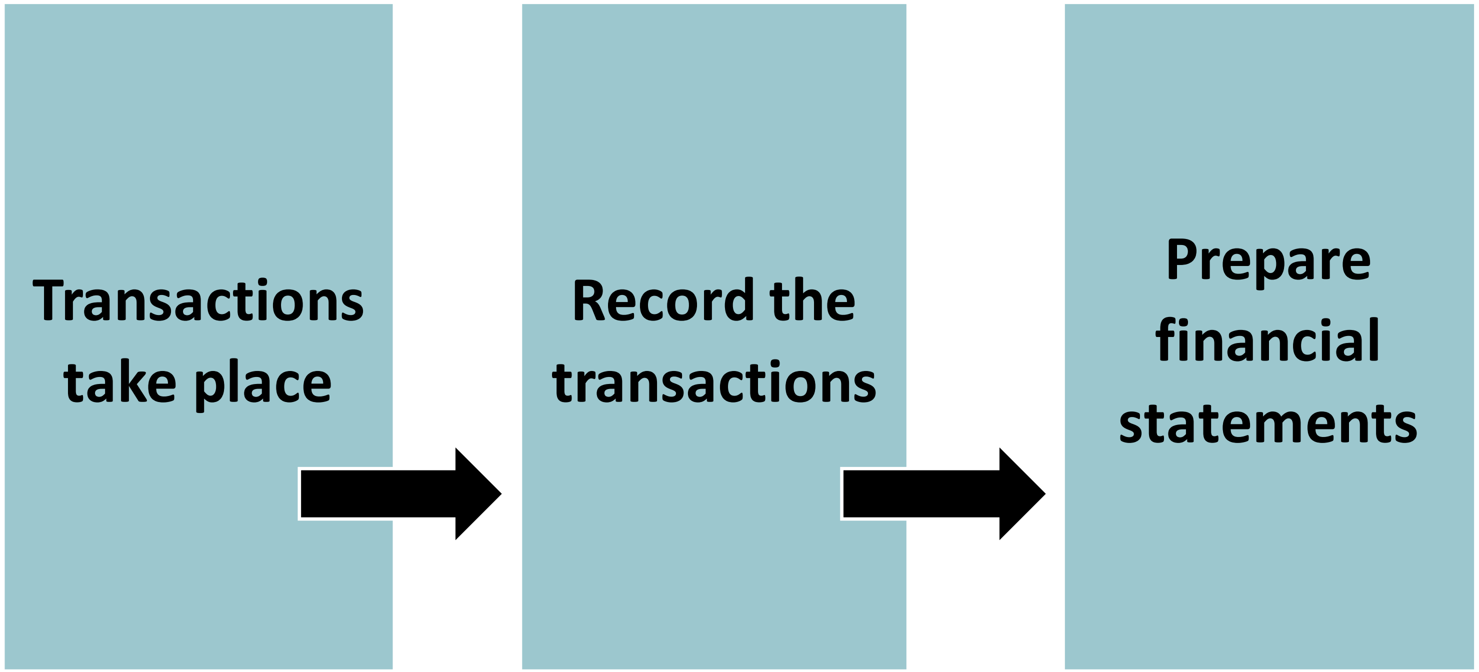

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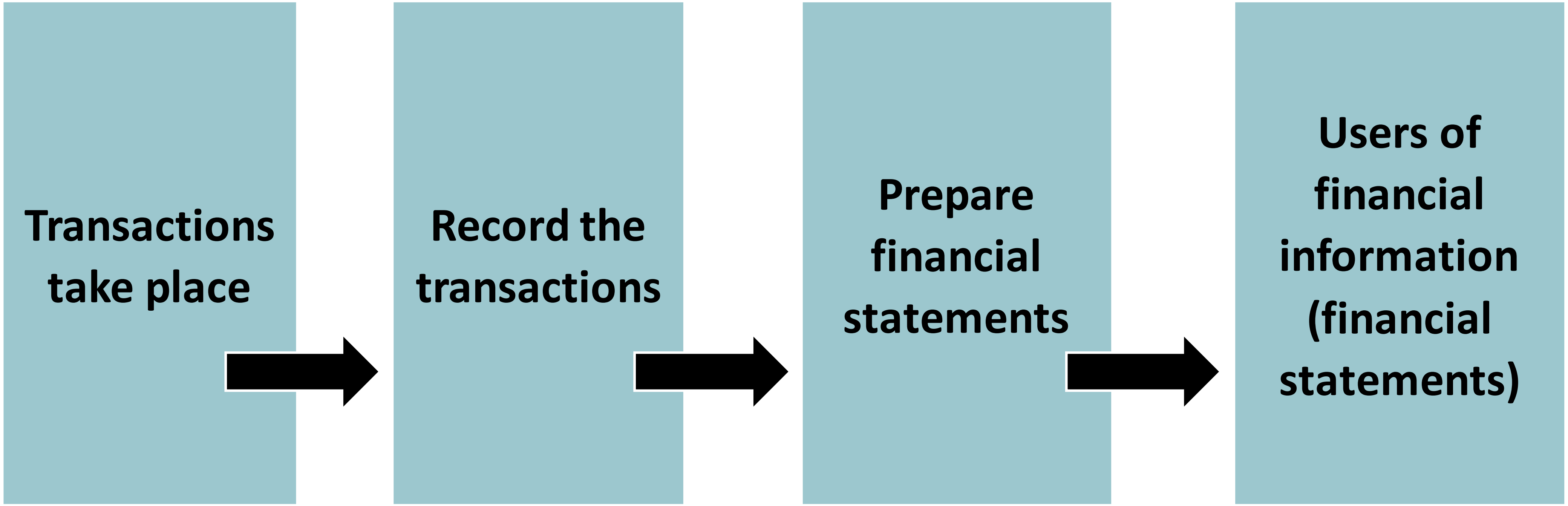


Financial statements

Balance sheet

- Statement of financial position
- Snapshot of financial position
- What it owns, owes, and equity (or capital)

Income statement

- Statement of Profit of Loss (or Comprehensive income)
- Measures whether the business made a profit or loss
- Performance measure

Cash flow statement

- How much cash was generated by the business and how much was utilized by the business

1.2 Objectives of the financial statements:

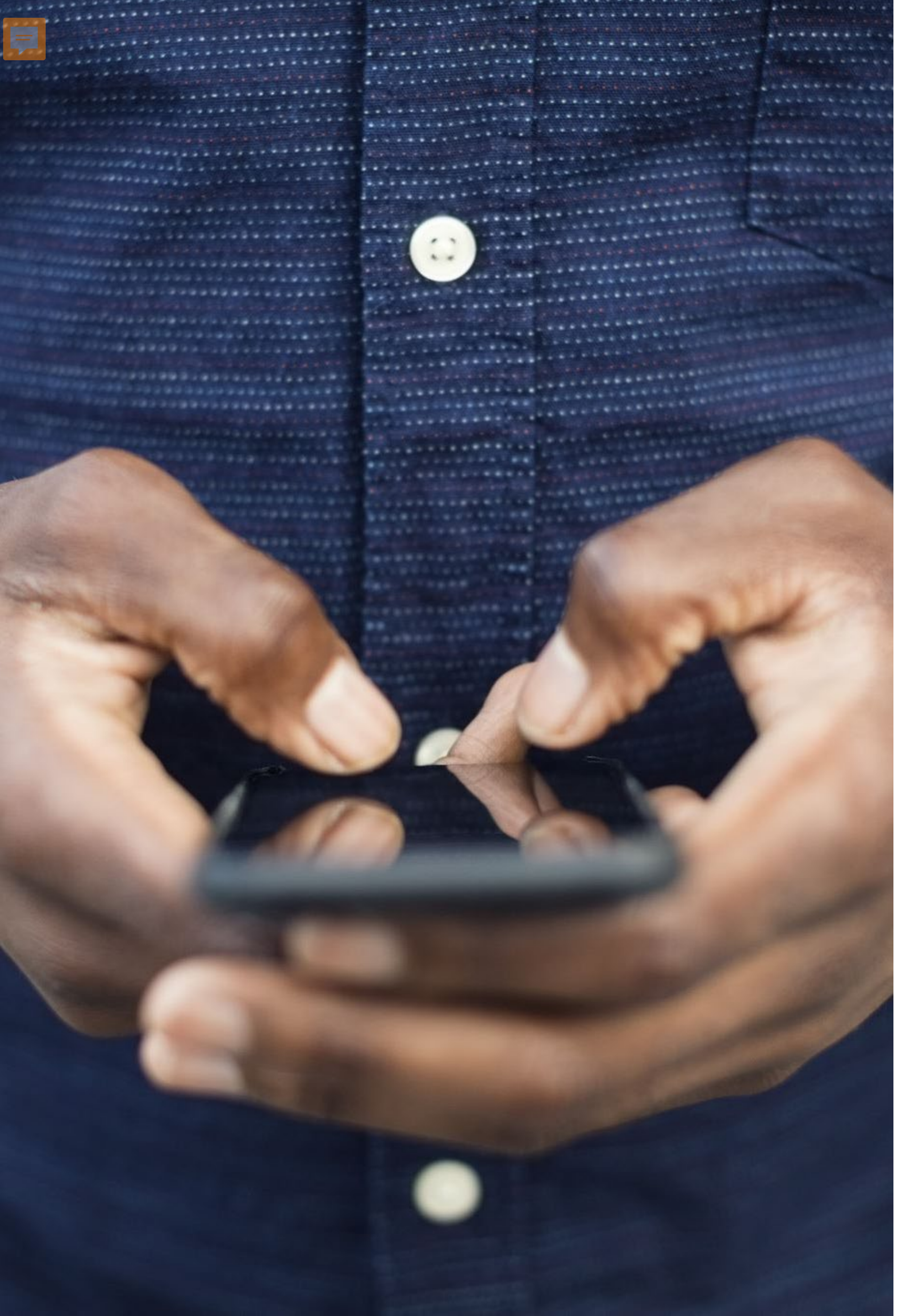
Financial statements provide information that:

- Helps current or potential users to make a rational decision about their investments or loan to the business
- Helps lenders decide whether or not to provide finance to the business
- Helps to assess the amount, timing and uncertainty of future cash flows
- Helps lenders to see whether or not the business can pay interest and repay the loan
- Show the economic resources, rights and obligations of the enterprise, and events that may affect them

Financial statements communicate information

Preparers prepare the financial statements

Users use the financial statements



Qualitative characteristics

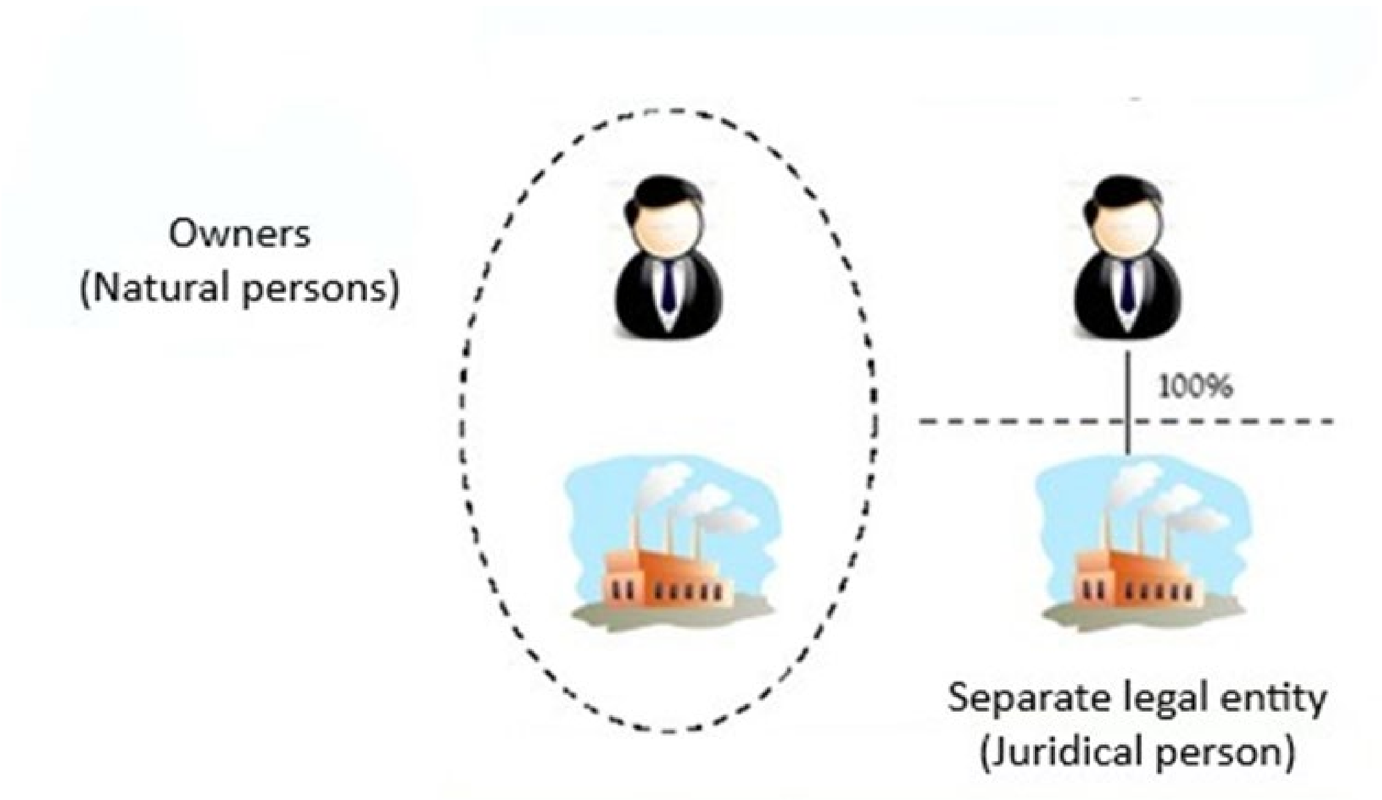
- Understandability
- Relevance
- Reliability
- Comparability
- Faithful representation

1.3 Users and their needs

Financial statements

- Business owners
- Financial institutions
- Suppliers
- Government
- SME agencies
- Credit agencies

1.4 Separating your economic transactions from your personal transactions



Objectives, qualitative characteristics and users of financial statements: Key points to remember
➢ The financial statements communicate the financial position and performance of a business.
➢ Financial statements should be understandable, relevant, reliable and comparable to be useful to users. In addition, financial statements should be complete, neutral and free from error.
➢ The person owning the business must keep their personal affairs separate from the affairs of the business.

Quick quiz

1. What are the three financial statements? Can you give a brief definition of each?

2. Name one user of the financial statements and what would they use the financial statements for?

3. Name one qualitative characteristic of the financial statements. Why is it important?

1.5 Definitions and explanations used in this module

Accounting policy	Accounting policies are the specific principles, bases, conventions, rules and practices applied by a business in preparing its financial statements. An example would be changing from one basis of assigning cost to inventory to another.
Accrual basis of accounting	The impact of events on assets and liabilities is recognised (recorded) in the accounting records in the period when the service is rendered or the sale (revenue) is earned and the expenses are recognised when incurred (also known as the matching principle).
Asset	An asset is a resource controlled by the enterprise as a result of past events and from which economic benefits are expected to flow to the enterprise.
Balance sheet	The balance sheet is a snapshot of the business at a point in time. It shows what the business owns (known as assets) and what it owes (known as liabilities). The difference between what it owns and what it owes represents the owner's investment in the business (i.e., equity).

1.5 Definitions and explanations used in this module cont.

Cash flow statement	The cash flow statement shows how much cash was generated by the business and how much cash was utilised by the business for the period under review.
Company	A company is an organisation usually governed by a Companies Act (or similar Act). A company can have many shareholders (i.e., owners). A company is a legal, taxable and reporting entity.
Cost	Cost is the amount which is paid to obtain goods or services (also known as transaction cost or historical cost).
Cost of sales	This refers to the cost of the items (or goods) acquired which were sold to customers during the reporting period (also known as cost of goods sold).

1.5 Definitions and explanations used in this module cont.

Current asset	Current assets are those assets which are expected to be used or sold in the normal course of the business's operating cycle, usually within 12 months of the balance sheet date. All other assets should be classified as non-current assets.
Current liabilities	Current liabilities are liabilities that will be paid either in the normal course of the business's operating cycle or within 12 months of the balance sheet date.
Drawings	If a sole proprietor or partner withdraws cash from the business for personal use rather than for business use, then this amount is treated as a reduction in equity and is termed 'drawings'.
Expense	In simple terms, expenses are decreases in assets as a result of supplying items for sale or providing a service. A detailed definition is given in Module 2.

1.5 Definitions and explanations used in this module cont.

Income	Income encompasses both revenue and gains. An example of revenue would be the sales of products. An example of a gain would be the increase in the value of a non-current asset, for example land.
Income statement	The income statement measures the activities of the business for a certain period by calculating the revenue (such as sales made by selling a product) for the period under review and deducting from that the expenses which have been incurred to make that revenue.
Liability	A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying future economic benefits.
Non-current assets	These are assets which are not current assets.

1.5 Definitions and explanations used in this module cont.

Non-current liabilities	These are obligations which must be repaid in a period exceeding one year.
Partnership	This is an enterprise where there are two or more co-owners. An agreement between the partners should be drawn up detailing how the profits are to be split and other arrangements affecting their capital accounts. Although it is not recognised as a separate legal or taxable entity, for accounting purposes, a partnership is a reporting entity.
Profit	This is the remaining amount after all expenses have been deducted from revenue. For a company, this is often referred to as retained earnings or retained income.
Reporting entity	A reporting entity as an entity that is required, or chooses, to prepare financial statements, and need not be a legal entity.

1.5 Definitions and explanations used in this module cont.

Revenue	Revenue is the proceeds from selling a product to customers or rendering a service to clients.
Sole proprietor (or sole trader)	This is an enterprise where there is only one owner who is usually the manager. Although it is not recognised as a separate legal or taxable entity, for accounting purposes, it is a reporting entity.

1.6 Illustrative example

Balance sheet

- Statement of financial position
- Snapshot of financial position
- What it owns, owes, and equity (or capital)

Income statement

- Statement of Profit of Loss (or Comprehensive income)
- Measures whether the business made a profit or loss
- Performance measure

Cash flow statement

- How much cash was generated by the business and how much was utilized by the business

Illustrative example 1.1: Preparation of financial statements for March 20X0

After the COVID-19 breakout, Joe Ngibe saw there was an opportunity to start a business selling face masks. He started the business on the 1 March 20X0 taking CU5,000 from his savings account. He bought 1 000 masks at CU5.00 each and intends to sell them for CU10.00 each. He named his business "Easy-on Masks".

The business sells the masks outside various places such as schools and shopping malls.
At the end of the first month, he calculates that he sold 900 masks for cash as follows:

- 500 masks at CU10.00 each.
- 400 masks at CU7.50 each. He had to drop his selling price on these masks as the fabric was not considered fashionable.

He also paid CU200 for travelling costs to sell his masks.

He decided to prepare financial statements to check on his financial position and determine whether or not his business is <u>successful.</u>

Required: Prepare an income statement, balance sheet and cash flow statement for Joe Ngibe after the above transactions.

Solution:

J Ngibe trading as Easy-on Masks

Income Statement for the month ended 31 March 20X0

( ) – indicates a minus

	Calculation:		CU
Revenue (sales of masks – all cash)	*(500 x CU10) + (400 x CU7.50)*		8,000
Purchases	*1 000 masks x CU5*	5,000	
Less: Closing inventory (masks unsold)	*100 masks x CU5*	(500)	
Cost of sales	*sold 900 masks which cost CU5 each*		(4,500)
Gross profit			3,500
Travelling expenses			(200)
Profit			3,300

J Ngibe trading as Easy-on Masks
Balance sheet as of 1 March 20X0

Assets	CU
Current assets	
Cash	5,000
Equity (Owner's equity)	5,000

Explanation: On the 1 March, the business only owns one asset which is cash. It does not owe amounts to anyone. The difference is therefore CU5,000 which represents the owner's interest in the business.

J Ngibe trading as Easy-on Masks
Balance sheet as of 31 March 20X0

Assets	<u>*Calculation:*</u>	CU
Current assets		
Cash	*5,000 + 8,000 (sales for cash) – 5,000 (cost of the masks paid in cash) – 200 (travelling expenses – paid cash)*	7,800
Inventory	*Cost of masks not sold and still available for sale*	500
		8,300
Equity		
Owner's equity	*5,000 + 3,300 (profit from the income statement which belongs to the owner)*	8,300

Explanation: On the 31 March, the business owns two assets (CU7,800 cash + CU500 Inventory). It does not owe amounts to anyone. Owner's equity of CU8,300 is the CU5,000 (original investment) plus the profit of the CU3,300 which belongs to the owner. Note that the two parts of the balance sheet total to the same amount.

J Ngibe trading as Easy-on Masks
Balance sheet as of 31 March 20X0

	CU		CU
Assets		**Equity**	
Current assets			
Cash	7,800	Owner’s equity	8,300
Inventory: Cost of masks not sold	500		
	8,300		8,300

Definitions:

Asset	• Resource controlled by the enterprise • As a result of past events, from which • Economic benefits are expected to flow to the enterprise
Current assets	• Assets expected to be used or sold • In the normal course of the business's operating cycle • Usually within 12 months of balance sheet date
Non-current assets	• All other assets should be classified as non-current assets

Definitions:

Income statement

- The income statement measures that activities of the business for a certain period.

Balance sheet

- The balance sheet is a snapshot of the business at a point of time. It shows what the business owns (assets) and what it owes (liabilities). The difference between assets and liabilities is equity. (A – L = E)
- A = L + E

Cash flow statement

Definition:

- The cash flow statement shows how much cash was generated by the business and how much cash was utilized by the business for the period under review.

Operating, investing and financing activities

Operating

Main income source for the entity

Investing

Activities related to the acquisition of non-current assets and other investments (not included in cash and cash-equivalents)

Financing

Activities with financial institutions and the owners

The cash flow statement

- It shows how the enterprise generates and uses cash.
- Information about cash flows is useful as it provides users with a basis to generate cash and cash equivalents.
- It reveals the origin of resources and their use.

Cash flows are inflows and outflows of cash and cash equivalents.
Cash comprises bank notes and coins held physically or available in the bank.
Cash equivalents are highly liquid short-term investments, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

J Ngibe trading as Easy-on Masks

Cash Flow Statement for the month ended 31 March 20X0

	CU
Profit per the income statement	3,300
Adjusted for: increase in inventory	(500)
Cash generated from operations	2,800
Cash flow from financing activity	
Owner's contribution	5,000
Cash provided by financing activity	5,000
Net increase in cash	7,800
Cash on 1 March 20X0	-
Cash on 31 March 20X0	7,800

<u>Cash flow movement for the month ended 31 March 20X0</u>	CU
Cash received from customers	8,000
Less: Cash paid for masks	(5,000)
	3,000
Less: Cash paid for other expenses	(200)
Cash generated from operations	2,800
Cash on 1 March 20X0 (or cash introduced by owner)	5,000
Cash on 31 March 20X0	7,800

Accounting has therefore provided useful information to Joe Ngibe

Accounting supplies information which decision -makers rely on in the allocation of scarce resources

Transactions take place → **Record the transactions** → **Prepare financial statements** → **Users of the financial statements**

Illustrative example 1.2: Preparation of the financial statements for April 20X0

As the financial statements Joe Ngibe prepared for March 20X0 have shown that the business of selling masks is profitable, he decided to expand his business by taking on an assistant to help sell the masks.

On 1 April, he bought a further 2,000 masks made out of more fashionable material for CU8 each from a supplier (MaskKits). MaskKits allowed him to pay only CU7,000 now and he had to pay the balance on the 2 May.

His sales were as follows:
100 masks at CU7.50 for cash. These masks were the inventory unsold at 31 March 20x0.
1 200 masks at CU10.00 on credit. These sales were the new masks. Customers had only paid half of the amount owing to him by the 30 April 20X0.

To display his masks, on the 30 April he bought a metal stand for CU5,000 from Metalco. He paid CU2,500 immediately and the supplier allowed him to pay the balance in May.
Travelling expenses are CU200, he paid the assistant CU800 and took CU200 for his own use (all in cash).

Required: At the end of April, prepare an income statement for the month of April, a balance sheet at the end of April and a cash flow statement for the month of April.

J Ngibe trading as Easy-on Masks

Income Statement for the month ended 30 April 20X0

	Calculation:		CU
Revenue (sales of masks)	*(100 x CU7.50) + (1 200 x CU10)*		12,750
Opening inventory	*100 masks x CU5*	500	
Purchases	*2 000 masks x CU8*	16,000	
		16,500	
Less: Closing inventory	*800 masks x CU8*	(6,400)	
Cost of sales	*Check: sold 100 masks which cost CU5 each + 1200 masks which cost CU8 each*		(10,100)
Gross profit			2,650
Operating expenses:			
Travelling expenses		(200)	
Wages		(800)	
Total operating expenses			(1,000)
Profit			1,650

J Ngibe trading as Easy-on Masks
Balance sheet as of 30 April 20X0

Assets		CU
Fixed asset		
Equipment		
Current assets		
Cash		
Accounts receivable		
Inventory		
Total current assets		
Equity		
Owner's equity		
Liabilities		
Current liabilities		
Metalco		
MaskKits		

J Ngibe trading as Easy-on Masks
Balance sheet as of 30 April 20X0

Assets	CU
Fixed asset	
Equipment	5,000
Current assets	
Cash	3,850
Accounts receivable	6,000
Inventory	6,400
Total current assets	16,250
	21,250
Equity	
Owner's equity	9,750
Liabilities	
Current liabilities	
Metalco	2,500
MaskKits	9,000
	21,250

Definition: liability

Liability

- A present obligation
- Arising from past events
- The settlement of which is expected to result in an outflow … of resources embodying future economic benefits

J Ngibe trading as Easy-on Masks

Cash Flow Statement for the month ended 30 April 20X0

	Calculation:	CU
Profit per the income statement		1,650
Adjusted for:		
(Increase) in inventory	*6,400 (ending inventory) – 500 (beginning inventory)*	(5,900)
(Increase) in accounts receivable	*6,000 (30 April) – 0 (31 March)*	(6,000)
Increase in trade payables	*(9,000 MaskKits) – 0 (31 March)*	9,000
Cash generated from operations		(1,250)
Cash flow from investing activities		
Purchase of equipment		(2,500)
Net cash used in investing activities		(2,500)
Cash flow from financing activities		
Drawings by owner		(200)
Net cash used in financing activities		(200)
Net (decrease) in cash	*(1,450) + (2,500)*	(3,950)
Cash on 1 April 20X0		7,800
Cash on 30 April 20X0		3,850

Financial statements: Key points to remember
➢ The financial statements represent a means to communicate the financial position of a business (Balance Sheet) at a given date and the operating results (Income Statement) and the cash flow (Cash Flow Statement) for a specified period.
➢ The balance sheet is a snapshot of the business at a point in time. It shows what the business owns (known as assets) and what it owes (known as liabilities). The difference between the assets and the liabilities represents the investment of the owner in the business (known as capital or equity).
➢ The income statement measures whether the business has made profit or a loss for the period under review.
➢ The cash flow statement shows how much cash was generated by the business and how much cash was utilised by the business for the period under review.
➢ In addition to these three basic statements, a business will also usually prepare some explanatory notes to accompany the financial statements.
➢ Transactions are measured and recorded using cost (also known as historical cost).

1.7 Recording the transactions using an accounting worksheet

Assets = Liabilities + Equity

A = L + E

Illustrative example 1.3: Accounting worksheet for March

Solution:

Joe Ngibe trading as Easy-on-masks - Analysis of transactions for March 20X0

			Assets			=	Liabilities	+		Equity
			A			=	L	+		E
	Description of transaction		Cash	+	Inventory	=	Liabilities			Owner's equity
1.	Initial investment	+	5,000			=		+	5,000	
2.	Purchase of inventory	-	5,000	+	5,000					
3.	Sales of masks	+	8,000 (a)			=		+	8,000 (revenue)	
4.	Cost of masks sold			-	4,500 (b)	=		-	4,500 (expense)	
5.	Travelling costs	-	200			=		-	200 (expense)	
	Balance 31 March		7,800	+	500	=	0	+	8,300	

Illustrative example 1.4: Accounting worksheet for April

Joe Ngibe trading as Easy-on-masks - Analysis of transactions for April 20X0

			Assets							=		Liabilities	+	Equity
	Description of transaction		Cash	+	Accounts receivable		Inventory		Equip-ment	=		Accounts payable		Owner's equity
	Beginning balances													
6.	Purchase of inventory - cash	-												
7.	Purchase inventory - credit													
8.	Sales of masks for cash	+												
9.	Sales of masks for credit													
10.	Customers paid	+												
11.	Cost of masks sold													
12.	Purchase of stand for cash and credit	-												
13.	Travelling costs	-												
14.	Paid assistant	-												
15.	Withdrew cash													
	Balances 30 April													

Illustrative example 1.4: Accounting worksheet for April

Solution: Joe Ngibe trading as Easy-on-masks - Analysis of transactions for April 20X0

					Assets					=		Liabilities	+	Equity
	Description of transaction		Cash	+	Accounts receivable		Inventory		Equip-ment	=		Accounts payable		Owner's equity
	Beginning balances		7,800			+	500			=				8,300
6.	Purchase of inventory - cash	-	7,000			+	7,000							
7.	Purchase inventory - credit					+	9,000			=	+	9,000		
8.	Sales of masks for cash	+	750(a)							=			+	750 R
9.	Sales of masks for credit			+	12,000(b)					=			+	12,000 R
10.	Customers paid	+	6,000	-	6,000									
11.	Cost of masks sold					-	10,100(c)			=			-	10,100 E
12.	Purchase of stand for cash and credit	-	2,500					+	5,000	=	+	2,500		
13.	Travelling costs	-	200							=			-	200 E
14.	Paid assistant	-	800							=			-	800 E
15.	Withdrew cash	-	200							=			-	200 D
	Balances 30 April		3,850	+	6,000	+	6,400(d)	+	5,000	=		11,500	+	9,750

Recording the transactions on a worksheet: Key points to remember
➢ After each transaction, total assets must always equal total liabilities plus equity.
➢ Because the net effect of revenue less expenses is profit or loss which belongs to the owner, the effect of a revenue transaction is added to owner’s equity and the effect of an expense transaction is deducted from equity.
➢ Drawings is shown as a deduction from equity as the owner is reducing his or her investment in the business by withdrawing cash.

1.7 Exercises

Exercise 1.1: Sole proprietor – balance sheet

Sipho Shange, who has a small business selling second-hand clothing, made the following list of his assets and liabilities at 31 December 20X2. He is uncertain as to what amount his equity (i.e. capital) is. All amounts are in currency units (CU).

	CU
Cash in the till	5,970
Suppliers – for clothes he has purchased but not yet paid for	2,000
Clothes – which have not been sold	3,200
Wages owing	200
Amount owing to Easy Lending for money he borrowed to start his business – this only has to be repaid in 18 months' time	5,400
Table purchased on 31 December 20X2 to display the clothes	1,500
Customer who has yet to pay	300

Suggested solution to Exercise 1.1

Sipho Shange Balance Sheet as of 31 December 20X2				
	CU			CU
ASSETS			LIABILITIES	
			EQUITY	
TOTAL ASSETS			TOTAL LIABILITIES + EQUITY	

Suggested solution to Exercise 1.1

(1 page only)

Sipho Shange
Balance Sheet as of 31 December 20X2

	CU		CU
ASSETS		**LIABILITIES**	
Non-current assets		*Non-current liabilities*	
Equipment	1,500	Easy Lending	5,400
Current assets		*Current liabilities*	
Inventory	3,200	Wages owing	200
Accounts receivable	300	Suppliers	2,000
Cash	5,970		2,200
	9,470		
		Total liabilities	7,600
		EQUITY	
		Balance 31 December 20X2	3,370(a)
TOTAL ASSETS	**10,970**	**TOTAL LIABILITIES + EQUITY**	**10,970**

(a) Balancing figure

Exercise 1.2: Sole proprietor - worksheet

Ms Carmen Diaz started a small business on the 1 January 20X1 with 60,000CU she received as an inheritance at the end of the previous year. The money was deposited into a separate bank account. Her business, “Hot Hot-Dogs”, sells hot dogs from a small kiosk outside a school. At the end of the first month, she wanted to see if her business was successful or not.

The following are her transactions for January 20X1 (which were all processed through her bank account).

1.	She purchased:	
	5 100 hot dog rolls at CU1 each	5,100
	5 100 sausages at CU5 each	25,500
	Butter, tomato and mustard sauce	780
2.	She paid:	
	Rent for the kiosk	2,000
	Wages paid to an assistant	3,000
	Fuel used for heating water	620

3. She withdrew 10,000CU for her personal use.
4. She sold 5 000 hot dogs for 10CU each.
5. Her uncle, Mr Ruiz, lent her 5,000CU which she paid into her bank account.
6. Although she had rolls and sausages over at the end of the month, she was confident she could use them in the following month as she could store them in her freezer until required.

Ms Carmen Diaz trading as Hot Hot-Dogs
Accounting worksheet for the month ended 31 January 20X1

Solution:

Analysis of transactions for January 20X1

			Assets					=		Liabilities	+	Equity
	Description of transaction		Cash/Bank	+	Inventory			=		Loan	+	Owner's equity
					Hot dog rolls		Sausages					
	Paid-in capital											
1.	Purchase of inventory											
	Purchase of inventory											
	Purchase of condiments											
2.	Paid rent											
	Paid wages											
	Paid fuel											
3.	Drawings											
	Sales											
4.	Cost of rolls sold											
	Cost of sausages sold											
5.	Loan from uncle											
	Balances 31 January											

Ms Carmen Diaz trading as Hot Hot-Dogs
Worksheet for the month ended 31 January 20X1

Solution:
Analysis of transactions for January 20X1

	Assets			=	Liabilities	+	Equity
Description of transaction	Cash/Bank	+	Inventory	=	Loan	+	Owner's equity
		Hot dog rolls	Sausages				
Paid in capital	60,000			=			60,000

Ms Carmen Diaz trading as Hot Hot-Dogs
Worksheet for the month ended 31 January 20X1

Solution:
Analysis of transactions for January 20X1

			Assets					=	Liabilities	+	Equity
	Description of transaction		Cash/Bank	+	Inventory			=	Loan	+	Owner’s equity
					Hot dog rolls		Sausages				
	Paid in capital		60,000					=			60,000
1	Purchase of inventory	-	5,100	+	5,100						
	Purchase of inventory	-	25,500			+	25,500				
	Purchase of condiments	-	780					=		-	780 E

Ms Carmen Diaz trading as Hot Hot-Dogs
Worksheet for the month ended 31 January 20X1

Solution:

Analysis of transactions for January 20X1

	Description of transaction		Cash/Bank		Hot dog rolls		Sausages			Loan		Owner's equity
			Assets					=		Liabilities	+	Equity
			Cash/Bank	+	Inventory			=		Loan	+	Owner's equity
					Hot dog rolls		Sausages					
	Paid-in capital		60,000					=				60,000
1.	Purchase of inventory	-	5,100	+	5,100							
	Purchase - inventory	-	25,500			+	25,500					
	Purchase -condiments	-	780					=			-	780 E
2.	Paid rent	-	2,000					=			-	2,000 E
	Paid wages	-	3,000					=			-	3,000 E
	Paid fuel	-	620					=			-	620 E
3.	Drawings	-	10,000					=			-	10,000 D
	Sales	+	50,000					=			+	50,000 R
4.	Cost of rolls sold			-	5,000			=			-	5,000 E
	Cost of sausages sold					-	25,000 (b)	=			-	25,000 E
5.	Loan from uncle	+	5,000					=	+	5,000		
	Balances 31 January		68,000	+	100	+	500	=		5,000		63,600

Ms Carmen Diaz trading as Hot Hot-Dogs
Income Statement for the month ended 31 January 20X1

	Calculation:		**CU**
Sales – all cash	*5 000 hotdogs at CU10 each*		50,000
Purchases – hot dog rolls	*5 100 hot dog rolls at CU1 each*	5,100	
Purchases - sausages	*5 100 sausages at CU5 each*	25,500	
Total cost of purchases		30,600	
Less: Cost of rolls not sold	*100 x CU1*	(100)	
Less: Cost of sausages not sold	*100 x CU5*	(500)	
Cost of selling 5 000 hotdogs			(30,000)
Gross profit			20,000
Less: Other expenses			
Rent for the kiosk		2,000	
Wages paid to an assistant		3,000	
Fuel used for heating water		620	
Butter, tomato and mustard		780	(6,400)
Profit			13,600

Ms Carmen Diaz trading as Hot Hot-Dogs
Balance Sheet as of 31 January 20X1

	Calculation:	CU
Equity		
Beginning balance		60,000
Profit for the month		13,600
		73,600
Less drawings		(10 000)
Ending balance		63,600
Liability		
Loan from Mr Ruiz		5,000
		68,600
Assets		
Current assets		
Cash	*60,000 – 5,100 – 25,500 – 2,000 – 3,000 – 620 – 780 - 10,000 + 50,000 + 5,000*	68,000
Inventory	*(100 x 1CU) rolls + (100 x 5CU) sausages*	600
		68,600

Ms Carmen Diaz trading as Hot Hot-Dogs
Cash Flow Statement for the month ended 31 January 20X1

	CU
Profit for January	13,600
(Increase) in inventory	(600)
Cash generated from operations	13,000
Cash flows from financing operations	
Payment to equity (capital)	60,000
Payment to loan	5,000
Owner's drawings	(10,000)
Net cash used in financing operations	55,000
Net increase in bank	68,000
Bank balance at beginning of January 20X1	-
Bank balance at end of January 20X1	68,000

Exercise 1.3: Cash flow statement

At the end of 20X5, Patrick Ngwenya trading as Karibu Enterprises extracted the following information from his financial records:

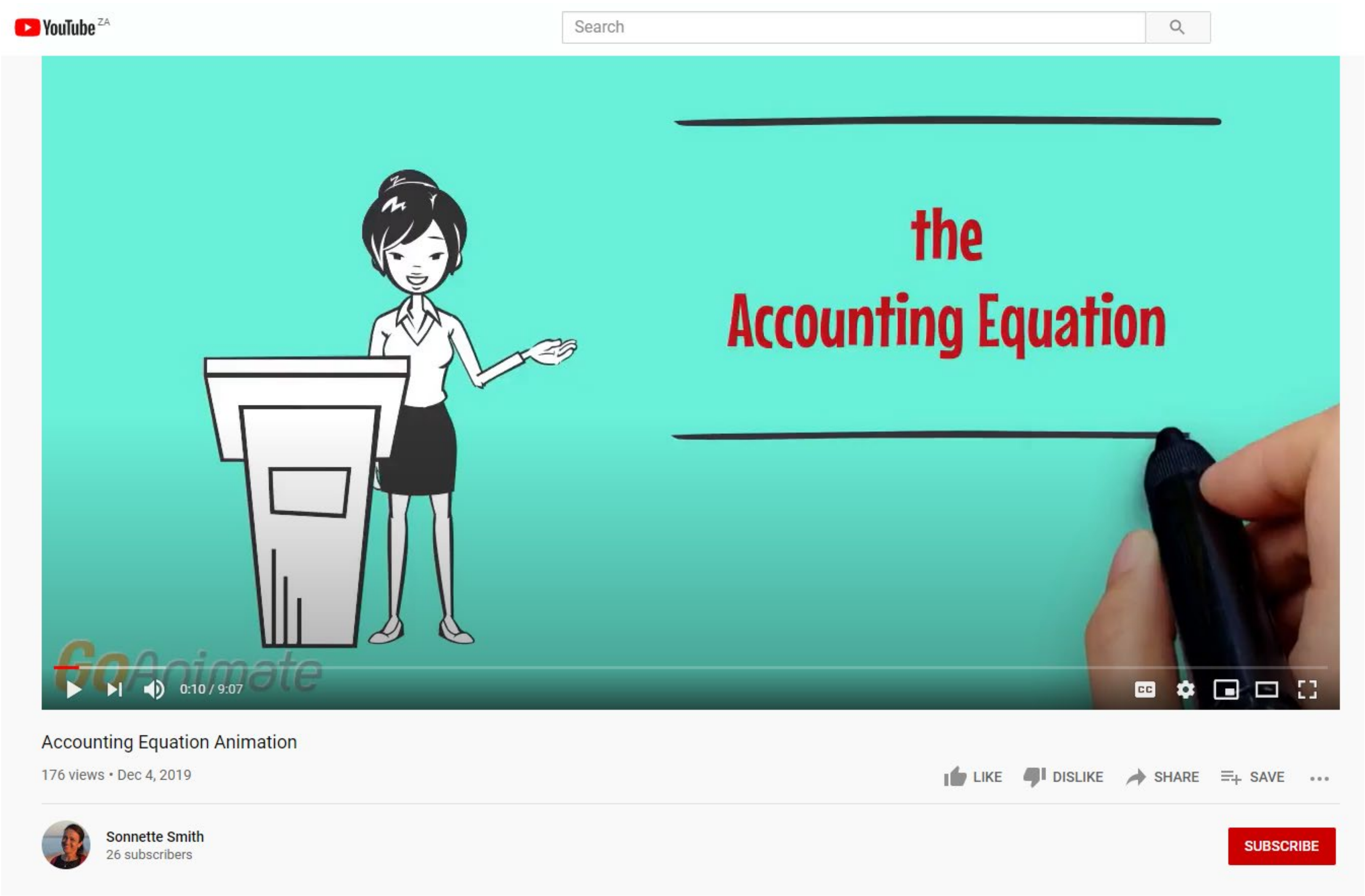
- an increase in inventories of 15,000 CU
- accounts payable decreased by 8,000 CU
- a new bank loan of 20,000 CU
- repayment of a previous loan of 5,000 CU
- purchase of new machinery for 6,000 CU
- profit as shown in the income statement is 4,500 CU
- cash balance on December 31st last year was 2,200 CU

Patrick Ngwenya trading as Karibu Enterprises
Cash Flow Statement for the year ending 31 December 20X5 (in CUs)

	20X5
Profit for the year	
(Increase) Decrease in Accounts receivable	
(Increase) Decrease in Inventories	
Increase (Decrease) in Accounts payable	
Net cash generated from operations	
Cash flows resulting from investing activities	
Sale (purchase) of non-current assets	
Net cash used in investing activities	
Cash flows from financing operations	
Receipt (Payment) of bank loan	
(Repayment) of loan	
Net cash used in financing activities	
Net increase (Decrease) in cash	
Cash at the beginning of the period, 1 January	
Cash at the end of the period, 31 December	

Patrick Ngwenya trading as Karibu Enterprises
Cash Flow Statement for the year ending 31 December 20X5 (in CUs)

	20X5
Profit for the year	4,500
(Increase) Decrease in Accounts receivable	0
(Increase) Decrease in Inventories	(15,000)
Increase (Decrease) in Accounts payable	(8,000)
Net cash generated from operations	(18,500)
Cash flows resulting from investing activities	
Sale (purchase) of non-current assets	(6,000)
Net cash used in investing activities	(6,000)
Cash flows from financing operations	
Receipt (Payment) of bank loan	20,000
(Repayment) of loan	(5,000)
Net cash used in financing activities	15,000
Net increase (Decrease) in cash	(9,500)[1]
Cash at the beginning of the period, 1 January	2,200
Cash at the end of the period, 31 December	(7,300)[2]



https://www.youtube.com/watch?v=XUOESB7q_oo

End of Module 1