


Financial Accounting & Management Reporting

“Professional Guidance”




VIA ...

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 Bahrain

- Graduated in Khartoum Polytechnic 1979 and got my CPA US certification in year 2000.
- Worked for Al Essa Co. & Kingdom Holding in Riyadh, Saudi Arabia
- Worked as Consultant & Compliance Officer for the Arab Investment Company, Bahrain.
- In Year 2016, established own Business & Software Consultancy “AccBest” in Bahrain.

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Building the Basic Financial Statements

Class 12 – Saturday - 20, Feb. 2021 - 8:30 - 10:30 PM

Statement of Profit or Loss (Income Statement)

Statement of Financial Position (Balance Sheet)


Statement of Changes in Shareholders Equity

Statement of Cash Flows

قائمة التدفقات النقدية

Formats for Cash Flow Statement

Indirect	• Reconciles from net income to cash provided by operating activities
Direct	• Reports all cash receipts and cash payments from operating activities



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Timetable

Financial Accounting & Reporting Training Programme - (1)							
Class	Day	Date	from	To	Topic Covered	Progress	
1	Thursday	28-Jan-21	8:30 PM	10:30 PM	The Double Entry System, The Chart Of Accounts	✓	
2	Friday	29-Jan-21	3:00 PM	5:00 PM	Accounting Cycle, Presentation of Basic Financial Statements	✓	
3	Saturday	30-Jan-21	8:30 PM	10:30 PM	Transactions, Accounting Entries & Trial Balance, GL	✓	
4	Thursday	4-Feb-21	8:30 PM	10:30 PM	The Adjusting Entries & The Matching Principle	✓	
5	Friday	5-Feb-21	3:00 PM	5:00 PM	Depreciations of Fixed Assets & Amortizations	✓	
6	Saturday	6-Feb-21	8:30 PM	10:30 PM	Adjusted TB, Profit or Loss - Preparation & Components	✓	
7	Thursday	11-Feb-21	8:30 PM	10:30 PM	Statement of Profit or Loss - Preparation & Components	✓	
8	Friday	12-Feb-21	3:00 PM	5:00 PM	Statement of Profit or Loss - Preparation & Components	✓	
9	Saturday	13-Feb-21	8:30 PM	10:30 PM	Statement of Financial Position - Preparation & Components	✓	
10	Thursday	18-Feb-21	8:30 PM	10:30 PM	Statement of Financial Position - Preparation & Components	✓	
11	Friday	19-Feb-21	3:00 PM	5:00 PM	Statement of Financial Position - Preparation & Components	✓	
12	Saturday	20-Feb-21	8:30 PM	10:30 PM	Statement of Cash Flows - Preparation & Components	✓	
13	Thursday	25-Feb-21	8:30 PM	10:30 PM	Statement of Cash Flows - Preparation & Components		
14	Friday	26-Feb-21	3:00 PM	5:00 PM	Statement of Cash Flows - Preparation & Components		
15	Saturday	27-Feb-21	8:30 PM	10:30 PM	Statement of Cash Flows - Preparation & Components		
16	Thursday	4-Mar-21	8:30 PM	10:30 PM	Notes to the Financial Statements		
17	Friday	5-Mar-21	3:00 PM	5:00 PM	Financial Ratios - Practical Applications		
18	Saturday	6-Mar-21	8:30 PM	10:30 PM	Value Added Tax "VAT" - Basics & Accounting		
19	Thursday	11-Mar-21	8:30 PM	10:30 PM	Report to Your Boss! - Sample Management Report		
20	Friday	12-Mar-21	3:00 PM	5:00 PM	Course Summary, Closing & Distribution of Certificates		

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Building a Complete Statement of Cash Flows

بناء قائمة التدفقات النقدية

HSA Company - Income Statement for the Period ending December 31, 2019				HSA Company - Statement of Financial Position as of December 31, 2019 - (US\$)			HSA Company - Statement of Cash Flows for the Period ending December 31, 2019	
	US\$			2,019	2,018	Change		US\$
Revenue (sales)	820,450	Assets					Cash flow from Operating Activities	
Cost of revenue (sales)	(533,293)	Non-current assets					Net Income	84,452
Gross Profit	287,157	Property, Plant & Equipment (PPE)	180,255	160,925	19,330		+ Depreciation	16,200
Operating expenses:		Intangible assets	25,220	20,100	5,120		+ Amortization	7,500
Selling, general & admin expenses	(210,400)	Total non-current assets	205,475	181,025			Adjusted Net Income	108,152
Earnings - (EBITDA)**	76,757	Current assets					Changes in working capital:	
Depreciation expense	(16,200)	Cash & Cash equivalents	71,688	60,512	11,176		(Increase) decrease in inventory	(28,838)
Amortization expense	(7,500)	Inventory	175,210	146,372	28,838		(Increase) decrease in accounts receivable	34,587
Earnings before interest & Tax (EBIT)	53,057	Accounts Receivable (AR)	240,563	275,150	(34,587)		(Increase) decrease in prepaid expenses	30,100
Interest expense	(12,150)	Prepaid expenses	12,500	42,600	(30,100)		Increase (decrease) in accounts payable	38,001
Earnings before Tax (EBT)	93,964	Total Current assets	499,961	524,634			Increase (decrease) in accrued expenses	(7,676)
Tax expenses	(9,512)	Total Assets	705,436	705,659			Net Changes in working capital:	66,174
Net Income	84,452	Shareholders' Equity					Net Cash flow from Operating Activities	174,326
Retained Earnings:		Common Stock	120,000	120,000	0		Cash flow from Investing Activities:	
Net Income	84,452	Retained Earnings	170,072	145,620	24,452		Purchase of PP&E	(35,530)
Dividends paid	(60,000)	Total Shareholders' Equity	290,072	265,620			Purchase of intangible assets	(12,620)
To Retained Earnings	24,452	Liabilities					Net Cash flow from Investing Activities	(48,150)
		Non-current liabilities					Cash flow from Financing Activities:	
		Long Term loan	250,500	285,500	(35,000)		Repayment of long term loan	(35,000)
		Total non-current liabilities	250,500	285,500			Repayment of short term loan	(20,000)
		Current liabilities					Payment of dividends	(60,000)
		Accounts Payable	118,621	80,620	38,001		Net Cash flow from Investing Activities	(115,000)
		Short Term loan	20,000	40,000	(20,000)		Net change in cash flows	11,176
		Accrued Expenses	26,243	33,919	(7,676)		Opening balance of cash & cash equivalents	60,512
		Total Current liabilities	164,864	154,539			Closing balance of cash & cash equivalents	71,688
		Total Liabilities	415,364	440,039				
		Total Liabilities & Equity	705,436	705,659				

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Statement of Cash Flows

قائمة التدفقات النقدية

Why is the Statement of Cash Flows important?

- Statement Cash Flows is usually prepared at the end of each year.
- The Statement of Financial Position reflects the balances of cash & banks at the year end.
- However; the Statement of Financial Position does not tell you the sources of cash (where the cash came from) and the uses of cash (where it was spent).
- The Statement Cash Flows reflects that in a clear systematic manner.
 - Managers of the business,
 - financial analysts,
 - creditors and
 - other users
- need to read and analyze the Statement of Cash Flows.

Statement of Cash Flows

قائمة التدفقات النقدية

لماذا تعتبر قائمة التدفقات النقدية مهمة؟

- يتم إعداد بيان التدفقات النقدية عادة في نهاية كل عام.
- تعكس قائمة المركز المالي أرصدة النقد والبنوك في نهاية السنة.
- إلا أن قائمة المركز المالي لا تتنبئ عن مصادر النقد (من أين جاء النقد) واستخداماته (أين تم إنفاقه).
- لكن قائمة التدفقات النقدية تعكس ذلك بطريقة منهجية واضحة، حيث أن
 - مدبري الأعمال ،
 - المحللين الماليين،
 - الدائنين و
 - مستخدمين آخرين ...
- كلهم بحاجة إلى قراءة قائمة التدفقات النقدية وتحليلها.

Statement of Cash Flows	قائمة التدفقات النقدية
<p>Methods of Statement of Cash Flows</p> <p>Direct Method</p> <p>In-Direct Method</p> <p>The In-Direct Method is more popular than the Direct Method</p> <p>Direct and In-Direct Methods differ in the way Cash Flow from Operating Activities is prepared. They agree in the other 2 sections</p>	<p>Sections of Statement of Cash Flows</p> <p>Cash Flow From Operating Activities e.g., revenues, expenses, change in current assets & current liabilities</p> <p>Cash Flow From Investing Activities e.g., sales and purchase of property, plant & equipment- PP&E</p> <p>Cash Flow From Financing Activities e.g., issuance of shares, raising of debts, loans, dividends</p>
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Statement of Cash Flows	قائمة التدفقات النقدية
<p>طرق إعداد قائمة التدفقات النقدية</p> <p>الطريقة المباشرة</p> <p>الطريقة غير المباشرة</p> <p>الطريقة غير المباشرة أكثر شيوعاً من الطريقة المباشرة</p> <p>تختلف الطريقتان المباشرة وغير المباشرة في الطريقة التي يعد بها قسم النقد من الأنشطة التشغيلية، لكنهما تتفقان في القسمين الآخرين</p>	<p>أقسام قائمة التدفقات النقدية</p> <p>التدفقات النقدية من الأنشطة التشغيلية مثلاً: الإيرادات، المصاريف، التغيرات في الأصول المتداولة والخصوم المتداولة</p> <p>التدفقات النقدية من الأنشطة الاستثمارية مثلاً: بيع وشراء الممتلكات والآلات والمعدات</p> <p>التدفقات النقدية من الأنشطة التمويلية مثلاً: طرح الأسهم، طرح الاستدانة، القروض وتوزيعات الأرباح</p>
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Statement of Cash Flows

Direct & Indirect Methods:

o Cash purchases	250,000
o Cash sales	400,000
o Cash expenses	50,000
o Depreciation	45,000
o No inventory balance at the end of the month.	
o No other transactions during the month.	

- Prepare:
 - o Income Statement
 - o Cash Flow Statement – Direct method
 - o Cash Flow Statement – Indirect method

قائمة التدفقات النقدية

Income Statement


Sales	400,000
Cost of Sales	<u>250,000</u>
Gross Profit	<u>150,000</u>
Expenses – Cash	50,000
Depreciation	<u>45,000</u>
Net Profit	<u>55,000</u>

Cash Flow Statement - Direct Method

Cash Flow from Sales	400,000
Cash Flow on Purchase	(250,000)
Cash Flow on Expenses	<u>(50,000)</u>
Net Cash from Operations	<u>100,000</u>

Cash Flow Statement - Indirect Method

Net Income	55,000
Add back non-cash expenses:	
+ Depreciation	<u>45,000</u>
Net Cash from Operations	<u>100,000</u>



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Statement of Cash Flows

Direct & Indirect Methods:

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قائمة التدفقات النقدية

Income Statement


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Expenses – Cash	50,000
Depreciation	<u>45,000</u>
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Cash Flow Statement - Direct Method

Cash Flow from Sales	400,000
Cash Flow on Purchase	(250,000)
Cash Flow on Expenses	<u>(50,000)</u>
Net Cash from Operations	<u>100,000</u>

Cash Flow Statement - Indirect Method

Net Income	55,000
Add back non-cash expenses:	
+ Depreciation	<u>45,000</u>
Net Cash from Operations	<u>100,000</u>



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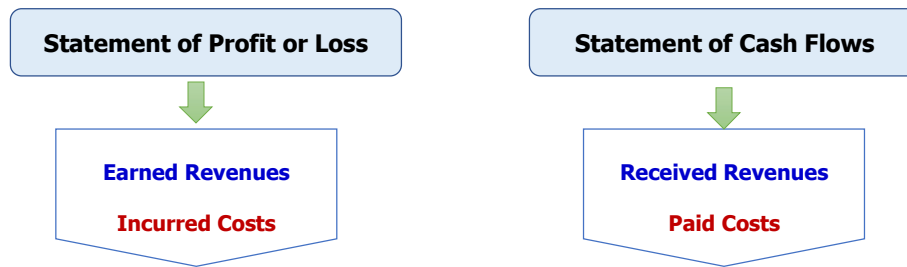
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Statement of Cash Flows

قائمة التدفقات النقدية

- **Net profit ... isn't it equal to cash?**
- No, as long the accrual basis of accounting is adopted.
- The Statement of Cash Flows is the document that shows from where the cash came and where it was spent.
- While the Statement of Profit or Loss is the document that tells you how much of revenue you gained, expenses you incurred, and net profit (loss) you made.

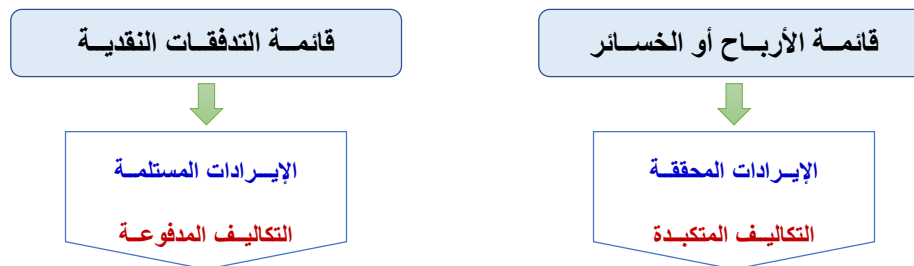


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Statement of Cash Flows

قائمة التدفقات النقدية

- **صافي الربح ... ألا يساوي النقد لدى الشركة؟**
- لا، طالما تم اعتماد أساس الاستحقاق المحاسبي.
- بيان التدفقات النقدية هو المستند الذي يبين (من أين جاء النقد وأين تم إنفاقه).
- في حين أن بيان الربح أو الخسارة هو المستند الذي يطلعك على مقدار الإيرادات التي تم اكتسابها، المصروفات التي تم تكبدها، وصافي الربح (الخسارة) الذي تم تحقيقه.



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Statement of Cash Flows

قائمة التدفقات النقدية

Cash Flows from Operating Activities - Indirect Method

- Indirect Method starts with the "net income",
- Then "net income" is adjusted for non-cash items
- If all the items in Income Statement were cash items, there will be no need to adjust the "net income".
- Adjustment to "net income" is required if:
 - Some of the sales / revenue invoices were on credit
 - Some of the purchase / expenses were on credit
 - Some of the inventory "stocks" were not sold.
 - Some of the items in the income statement were not in cash:
 - Depreciation, Amortization
 - Provisions,
 - Unrealized gains or losses.

Statement of Cash Flows

- Operating
- Investing
- Financing

Statement of Cash Flows

قائمة التدفقات النقدية

قائمة التدفقات النقدية

- التشغيلية
- Investing
- Financing

- التدفقات النقدية من أنشطة التشغيل - الطريقة غير المباشرة
- تبدأ الطريقة غير المباشرة بـ "صافي الدخل" ،
- ثم يتم تعديل "صافي الدخل" بالبنود غير النقدية
- إذا كانت جميع البنود في بيان الدخل بنوداً نقدية ، فلن تكون هناك حاجة لتعديل "صافي الدخل".
- التعديل على "صافي الدخل" مطلوب إذا:
 - كانت بعض فواتير المبيعات / الإيرادات دائنة
 - كانت بعض المشتريات / المصاريف آجلة
 - لم يتم بيع بعض عناصر المخزون.
 - بعض البنود في بيان الدخل لم تكن نقداً، مثال:
 - مصاريف الاستهلاك والإطفاء
 - مصروف المخصصات،
 - مكاسب أو خسائر "غير محققة".

Statement of Cash Flows		قائمة التدفقات النقدية
Cash Flows from Operating Activities - Indirect Method		
▪ Net Income	xx	Statement of Cash Flows <ul style="list-style-type: none"> ▪ Operating ▪ Investing ▪ Financing
▪ Adjust for non-cash items:		
• Add Back, Depreciation	xx	
• Add Back, Provisions	xx	
▪ Adjusted net income	xx	
▪ Changes in Working Capital Items:		
• (Increase) decrease in Accounts Receivable	(x)x	
• (Increase) decrease in Accounts Inventory	(x)x	
• Increase (decrease) in Accounts Payable	x(x)	
▪ Net Cash Flows from Operating Activities	xx	

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Statement of Cash Flows		قائمة التدفقات النقدية
Cash Flows from Operating Activities - Indirect Method		
▪ Example - Cash transactions + credit sales + depreciation		Statement of Cash Flows <ul style="list-style-type: none"> ▪ Operating ▪ Investing ▪ Financing
• HSA has the following transactions for the month of February:		
◦ Cash purchases	500,000	
◦ Cash sales	400,000	
◦ Credit sales	300,000	
◦ Cash expenses	60,000	
◦ Depreciation	45,000	
◦ Receipt from customers	180,000	
◦ No inventory balance at the end of the month.		
◦ No other transactions during the month.		
• Prepare:		
◦ Income Statement for February		
◦ Cash Flow Statement – Direct method		
◦ Cash Flow Statement – Indirect method		

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Statement of Cash Flows

- Cash purchases 500,000
- Cash sales 400,000
- Credit sales 300,000
- Cash expenses 60,000
- Depreciation 45,000
- Receipt from customers 180,000
- No inventory balance at the end of the month
- No other transactions during the month.

• **Prepare:**

- Income Statement for February
- Cash Flow Statement – Indirect method
- Cash Flow Statement – Indirect method

قائمة التدفقات النقدية

Income Statement


Sales (400,000+300,000)	700,000
Cost of Sales	<u>500,000</u>
Gross Profit	<u>200,000</u>
Expenses – Cash	60,000
Depreciation	<u>45,000</u>
Total expenses	<u>105,000</u>
Net Profit	<u>95,000</u>

Cash Flow Statement - Indirect Method

Net Income	95,000
Add back non-cash expenses:	
+ Depreciation	<u>45,000</u>
Adjusted net income	140,000
Change in Working Capital:	
- Increase in Receivables	(120,000)
Net Cash from Operations	<u>20,000</u>

Cash Flow Statement - Direct Method

Cash Flow from Sales	580,000
Cash Flow on Purchase	(500,000)
Cash Flow on Expenses	<u>(60,000)</u>
Net Cash from Operations	<u>20,000</u>



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Statement of Cash Flows

For the fiscal year ended December 31, 2019, HSA has the following results:


• Net income	85,200
• Depreciation expense	15,400
• Increase in accounts receivable	27,600
• Increase in accounts payable	16,400
• Decrease in tax liability	10,800

What is HSA net cash flow from operating activities?


a) 89,400
b) 63,200
c) 95,000
d) 78,600

قائمة التدفقات النقدية

Cash flow from Operating Activities	
Net Income	85,200
+ Depreciation	15,400
Adjusted Net Income	100,600
Changes in working capital:	
(Increase) in accounts receivable	<u>(27,600)</u>
Increase in accounts payable	16,400
(decrease) in tax liability (tax payable)	<u>(10,800)</u>
Net Changes in working capital:	<u>(22,000)</u>
Net Cash flow from Operating Activities	<u>78,600</u>



Answer (d) is correct



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Thank You!

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شركة استشارات الأعمال والإدارة

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