

## Building the Basic Financial Statements

**Class 14 – Friday - 26, Feb. 2021 - 3:00 - 5:00 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



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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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## Statement of Cash Flows

## قائمة التدفقات النقدية

## Cash Flow from Investing Activities

▪ Treatment of Proceeds and Gains or Losses from Selling Property Plant & Equipment (PP&E) - need to know:

▪ Formula:

- Net Book Value = PPE Cost - Accumulated Depreciation
- Cash Flow = Net Book Value + Gain (- Loss)

▪ Example: HSA sold a fixed asset that has a cost of 30,000 and accumulated depreciation of 21,000. HSA gained 6,000 from this sale transaction.

- Sale Proceeds = 30,000 - 21,000 = 9,000 (NBV) + 6,000 = 15,000 - this will go to cash flow from investing activities as cash inflow.
- Gain on Sale = 15,000 - 9,000 = 6,000 - this will be deducted from the Net Income as it increased the Net Income while Proceeds are reported as above.

## Statement of Cash Flows

## قائمة التدفقات النقدية

## Cash Flow from Investing Activities

## التدفقات النقدية من الأنشطة الاستثمارية

معالجة النقد المستلم والربح أو الخسارة نتيجة بيع الممتلكات والآلات والمعدات:  
المعادلة:

- صافي القيمة الدفترية = تكلفة الأصل الثابت - مجمع الإهلاك
- التدفقات النقدية نتيجة عملية البيع = صافي القيمة الدفترية + الربح، او - الخسارة

▪ مثال: قامت شركة إتش إس إيه ببيع أصل ثابت، تكلفته الدفترية تعادل 30,000، ومجمع إهلاكه 21,000. حققت الشركة ربحاً قدره 6,000 من عملية البيع تلك.

- حصيلة البيع = 30,000 - 21,000 = 9,000 (صافي القيمة الدفترية) + 6,000 = 15,000 (ستسجل في التدفقات النقدية من الأنشطة الاستثمارية كنفد وارد)
- الربح من عملية البيع = 15,000 - 9,000 = 6,000 (يسجل هذا المبلغ في التدفقات النقدية من الأنشطة التشغيلية، كتعديل لصافي الأرباح، وذلك كخصم منها) لماذا؟

## Statement of Cash Flows

## Q & A

## قائمة التدفقات النقدية

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The gain from sale of equipment should be reported in the financial statements as follows:


- a) Addition in the Income Statement, then addition again to Net Income in the Statement of Cash Flows.
- b) Addition in the Income Statement, and no effect in the Statement of Cash Flows
- c) Addition in the Income Statement, then a deduction from Net Income in the Statement of Cash Flows.
- d) Deduction in the income statement, then a deduction again from Net Income in the Statement of Cash Flows

Please see previous slide

↑

Answer c) is correct

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## Statement of Cash Flows

## قائمة التدفقات النقدية

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### Cash Flow from Financing Activities

- Cash Flow from Financing Activities is the net amount of funding or of cash generated or used during a given time period.
- Financing / usage activities include:
  - issuance and repayment of equity,
  - issuance and repayment of debt, and
  - payment of dividends,

Issuance or Repurchase of Equity

Repurchase = Treasury Shares


Issuance or Repurchase of Debt

Debt = e.g. Bonds

Payment of Dividends


Dividends are paid from Retained Earnings

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Statement of Cash Flows	قائمة التدفقات النقدية
<b>Cash Flow from Financing Activities</b>	<b>التدفقات النقدية من الأنشطة التمويلية</b>
<p>إصدار وسداد أسهم الشركة (حقوق الملكية) سداد = شراء أسهم الخزينة</p> <p>إصدار وسداد السندات (صكوك) الدين</p> <p>سداد أرباح الأسهم تسدد أرباح الأسهم من الأرباح المبقة</p>	<ul style="list-style-type: none"> <li>■ تتمثل التدفقات النقدية من الأنشطة التمويلية في النقد الوارد أو المصروف في عمليات تمويل نشاط الشركة خلال فترة زمنية محددة.</li> <li>■ وتشمل الأنشطة التمويلية: <ul style="list-style-type: none"> <li>○ إصدار وسداد أسهم الشركة (حقوق الملكية)،</li> <li>○ إصدار وسداد السندات (صكوك الدين)،</li> <li>○ سداد أرباح "توزيعات" الأسهم.</li> </ul> </li> </ul>
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Statement of Cash Flows	قائمة التدفقات النقدية
<b>Cash Flow from Financing Activities</b>	
<p><b>Retained Earnings &amp; Financing Cash Flows:</b></p> <ul style="list-style-type: none"> <li>■ Retained Earning relate to the Cash Flow in 2 areas: <ol style="list-style-type: none"> <li>1) <b>Net Profit (loss)</b> which is an addition to (deduction from) Retained Earnings. (<i>net income is a component of cash flow from operating activities</i>)</li> <li>2) <b>Dividends</b> which are subtracted or paid from Retained Earnings. (<i>Dividends are a component of cash flow from financing activities</i>)</li> </ol> </li> </ul>	
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## Statement of Cash Flows

## قائمة التدفقات النقدية

## Cash Flow from Financing Activities

## التدفقات النقدية من الأنشطة التمويلية

الأرباح المحتجزة والتدفقات النقدية من الأنشطة التمويلية:

- الأرباح المحتجزة / المبقاة / المحتفظ بها، تتعلق بالتدفقات النقدية في مجالين:
  - صافي الدخل (الخسارة): يضاف إلى أو (يخصم من) الأرباح المحتجزة.
  - ✓ (صافي الدخل هو أحد مكونات التدفق النقدي من الأنشطة التشغيلية)
  - توزيعات الأرباح: يتم طرحها عند سدادها من الأرباح المحتجزة.
  - ✓ (توزيعات الأرباح هي أحد مكونات التدفق النقدي من الأنشطة التمويلية)

## Statement of Cash Flows

## Q &amp; A

## قائمة التدفقات النقدية

Cash Flow from Operating Activities	Sales revenue	Sales revenue
	General & Admin. Expenses	General & Admin. Expenses
	Changes in Working Capital	Issued shares
Cash Flow from Investing Activities	Purchase and Sell of Assets	Changes in Working Capital
	Acquired a Business	Invested in Bonds
	Invested in Bonds	Purchase and Sell of Assets
Cash Flow from Financing Activities	Issued shares	Acquired a Business
	Raised Debt	Raised Debt
	Paid Dividends	Paid Dividends

Statement of Cash Flows	Q & A	قائمة التدفقات النقدية
إيراد من المبيعات	إيراد من المبيعات	التدفقات النقدية من الأنشطة التشغيلية
مصاريف عمومية وإدارية	مصاريف عمومية وإدارية	
إصدار أسهم	تغييرات رأس المال العامل	
تغييرات رأس المال العامل	شراء وبيع أصول ثابتة	التدفقات النقدية من الأنشطة الاستثمارية
استثمار في سندات (صكوك)	استحواذ على شركة أخرى	
شراء وبيع أصول ثابتة	استثمار في سندات (صكوك)	
استحواذ على شركة أخرى	إصدار أسهم	التدفقات النقدية من الأنشطة التمويلية
طرح سندات إقراض	طرح سندات إقراض	
سداد أرباح (توزيعات) أسهم	سداد أرباح (توزيعات) أسهم	

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Statement of Cash Flows	قائمة التدفقات النقدية
<b>A Complete Statement of Cash Flows - How is it Prepared?</b>	
<p>First ...: Make ready these 3 reports</p> <p>Statement of Financial Position (Balance Sheet) This Year</p> <p>Statement of Financial Position (Balance Sheet) Last Year</p> <p>Statement of Profit or Loss (Income Statement) This Year</p>	<p>قائمة المركز المالي (الميزانية العمومية) السنة الحالية</p> <p>قائمة المركز المالي (الميزانية العمومية) السنة الماضية</p> <p>قائمة الأرباح أو الخسائر (حساب الأرباح والخسائر) السنة الحالية</p> <p>أولاً: ... تأكد من توفر 3 قوائم مالية:</p>

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**Statement of Cash Flows** قائمة التدفقات النقدية

**A Complete Statement of Cash Flows - How is it Prepared? ... Steps**

Cash Flow from <b>Operating</b> Activities: Step (1)	Adjust the Income Statement for non-cash expenses (e.g. depreciation)	
Cash Flow from <b>Operating</b> Activities: Step (2)	Compare the Balance Sheets for Changes in Working Capital (Operation)	if <b>Current Assets</b> increased this will result in Cash Outflow = (decrease in Cash), and vice versa.
Cash Flow from <b>Investing then Financing</b> Activities:	Compare the Balance Sheets for Cash from Investing & Financing Activities	if <b>Current Liabilities</b> increased this will result in Cash Inflow = (increase in Cash), and vice versa.

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**Statement of Cash Flows** قائمة التدفقات النقدية

**إعداد قائمة التدفقات النقدية كاملة ... ما هي الخطوات؟ .....**

إذا زادت الأصول المتداولة فإن هذا يعني نقصاناً في التدفقات النقدية، والعكس صحيح	قم بتعديل قائمة الأرباح أو الخسائر بالعمليات المحاسبية غير النقدية، مثل استهلاك الأصول الثابتة	التدفقات النقدية من الأنشطة التشغيلية الخطوة (1)
إذا زادت الخصوم المتداولة فإن هذا يعني زيادةً في التدفقات النقدية، والعكس صحيح	قم بمقارنة بنود رأس المال العامل (التشغيلي) السنة الحالية بالسنة الماضية (أصول وخصوم متداولة)	التدفقات النقدية من الأنشطة التشغيلية الخطوة (2)
	قم بمقارنة بنود الأنشطة الاستثمارية ثم الأنشطة التمويلية السنة الحالية بالسنة الماضية	التدفقات النقدية من الأنشطة الاستثمارية ثم الأنشطة التمويلية

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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	<b>Assets</b>			<b>Cash flow from Operating Activities</b>		
Cost of revenue (sales)	(533,293)	<b>Non-current assets</b>			<b>Net Income</b> 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)	<b>Total non-current assets</b>	<b>205,475</b>	<b>181,025</b>		<b>Adjusted Net Income</b>	<b>108,152</b>
Earnings - (EBITDA)**	76,757	<b>Current assets</b>			<b>Changes in working capital:</b>		
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	<b>Total Current assets</b>	<b>499,961</b>	<b>524,634</b>		Increase (decrease) in accrued expenses	(7,676)
Tax expenses	(9,512)	<b>Total Assets</b>	<b>705,436</b>	<b>705,659</b>		<b>Net Changes in working capital:</b>	<b>66,174</b>
<b>Net Income</b>	<b>84,452</b>	<b>Shareholders' Equity</b>			<b>Net Cash flow from Operating Activities</b>		<b>174,326</b>
Retained Earnings:		Common Stock	120,000	120,000	0	<b>Cash flow from Investing Activities:</b>	
Net Income	84,452	Retained Earnings	170,072	145,620	24,452	Purchase of PP&E	(35,530)
Dividends paid	(60,000)	<b>Total Shareholders' Equity</b>	<b>290,072</b>	<b>265,620</b>		Purchase of intangible assets	(12,620)
<b>To Retained Earnings</b>	<b>24,452</b>	<b>Liabilities</b>			<b>Net Cash flow from Investing Activities</b>		<b>(48,150)</b>
		Long Term loan	250,500	285,500	(35,000)	<b>Cash flow from Financing Activities:</b>	
		<b>Total non-current liabilities</b>	<b>250,500</b>	<b>285,500</b>		Repayment of long term loan	(35,000)
		<b>Current liabilities</b>			Repayment of short term loan		(20,000)
		Accounts Payable	118,621	80,620	38,001	Payment of dividends	(60,000)
		Short Term loan	20,000	40,000	(20,000)	<b>Net Cash flow from Investing Activities</b>	<b>(115,000)</b>
		Accrued Expenses	26,243	33,919	(7,676)	<b>Net change in cash flows</b>	<b>11,176</b>
		<b>Total Current liabilities</b>	<b>164,864</b>	<b>154,539</b>		Opening balance of cash & cash equivalents	60,512
		<b>Total Liabilities</b>	<b>415,364</b>	<b>440,039</b>		<b>Closing balance of cash &amp; cash equivalents</b>	<b>71,688</b>
		<b>Total Liabilities &amp; Equity</b>	<b>705,436</b>	<b>705,659</b>			

\*\* Earnings before interest, Tax, Depreciation & Amortization (EBITDA)

	2,018	2,019	depr	investing
PPE	160,925	(180,255)	(16,200)	(35,530)
Intangibles	20,100	(25,220)	(7,500)	(12,620)

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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 Cash Flows for the Period ending December 31, 2019		
US\$		US\$		
Revenue (sales)	820,450	<b>Cash flow from Operating Activities</b>		
Cost of revenue (sales)	(533,293)	<b>Net Income</b> 84,452		
Gross Profit	287,157	+ Depreciation		16,200
Operating expenses:		+ Amortization		7,500
Selling, general & admin expenses	(210,400)	<b>Adjusted Net Income</b>		<b>108,152</b>
Earnings - (EBITDA)**	76,757	<b>Changes in working capital:</b>		
Depreciation expense	(16,200)	(Increase) decrease in inventory		(28,838)
Amortization expense	(7,500)	(Increase) decrease in accounts receivable		34,587
Earnings before interest & Tax (EBIT)	53,057	(Increase) decrease in prepaid expenses		30,100
Interest expense	(12,150)	Increase (decrease) in accounts payable		38,001
Earnings before Tax (EBT)	93,964	Increase (decrease) in accrued expenses		(7,676)
Tax expenses	(9,512)	<b>Net Changes in working capital:</b>		<b>66,174</b>
<b>Net Income</b>	<b>84,452</b>	<b>Net Cash flow from Operating Activities</b>		<b>174,326</b>
Retained Earnings:		<b>Cash flow from Investing Activities:</b>		
Net Income	84,452	Purchase of PP&E		(35,530)
Dividends paid	(60,000)	Purchase of intangible assets		(12,620)
<b>To Retained Earnings</b>	<b>24,452</b>	<b>Net Cash flow from Investing Activities</b>		<b>(48,150)</b>
		<b>Cash flow from Financing Activities:</b>		
		Repayment of long term loan		(35,000)
		Repayment of short term loan		(20,000)
		Payment of dividends		(60,000)
		<b>Net Cash flow from Investing Activities</b>		<b>(115,000)</b>
		<b>Net change in cash flows</b>		<b>11,176</b>
		Opening balance of cash & cash equivalents		60,512
		<b>Closing balance of cash &amp; cash equivalents</b>		<b>71,688</b>

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## Building a Complete Statement of Cash Flows

## بناء قائمة التدفقات النقدية

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	
	2,019	2,018	Change	US\$	
<b>Assets</b>				<b>Cash flow from Operating Activities</b>	
<b>Non-current assets</b>				<b>Net Income</b>	<b>84,452</b>
Property, Plant & Equipment (PPE)	180,255	160,925	19,330	+ Depreciation	16,200
Intangible assets	25,220	20,100	5,120	+ Amortization	7,500
<b>Total non-current assets</b>	<b>205,475</b>	<b>181,025</b>		<b>Adjusted Net Income</b>	<b>108,152</b>
<b>Current assets</b>				<b>Changes in working capital:</b>	
Cash & Cash equivalents	71,688	60,512	11,176	(Increase) decrease in inventory	(28,838)
Inventory	175,210	146,372	28,838	(Increase) decrease in accounts receivable	34,587
Accounts Receivable (AR)	240,563	275,150	(34,587)	(Increase) decrease in prepaid expenses	30,100
Prepaid expenses	12,500	42,600	(30,100)	Increase (decrease) in accounts payable	38,001
<b>Total Current assets</b>	<b>499,961</b>	<b>524,634</b>		Increase (decrease) in accrued expenses	(7,676)
				<b>Net Changes in working capital:</b>	<b>66,174</b>
<b>Total Assets</b>	<b>705,436</b>	<b>705,659</b>		<b>Net Cash flow from Operating Activities</b>	<b>174,326</b>
<b>Shareholders' Equity</b>				<b>Cash flow from Investing Activities:</b>	
Common Stock	120,000	120,000	0	Purchase of PP&E	(35,530)
Retained Earnings	170,072	145,620	24,452	Purchase of intangible assets	(12,620)
<b>Total Shareholders' Equity</b>	<b>290,072</b>	<b>265,620</b>		<b>Net Cash flow from Investing Activities</b>	<b>(48,150)</b>
<b>Liabilities</b>				<b>Cash flow from Financing Activities:</b>	
<b>Non-current liabilities</b>				Repayment of long term loan	(35,000)
Long Term loan	250,500	285,500	(35,000)	Repayment of short term loan	(20,000)
<b>Total non-current liabilities</b>	<b>250,500</b>	<b>285,500</b>		Payment of dividends	(60,000)
<b>Current liabilities</b>				<b>Net Cash flow from Investing Activities</b>	<b>(115,000)</b>
Accounts Payable	118,621	80,620	38,001	<b>Net change in cash flows</b>	<b>11,176</b>
Short Term loan	20,000	40,000	(20,000)	Opening balance of cash & cash equivalents	60,512
Accrued Expenses	26,243	33,919	(7,676)	<b>Closing balance of cash &amp; cash equivalents</b>	<b>71,688</b>
<b>Total Current liabilities</b>	<b>164,864</b>	<b>154,539</b>			
<b>Total Liabilities</b>	<b>415,364</b>	<b>440,039</b>			
<b>Total Liabilities &amp; Equity</b>	<b>705,436</b>	<b>705,659</b>			

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Thank You!

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