Statement of cash flows - introduction - ACCA Financial Reporting (FR) OpenTuition

The likelihood of having to prepare a statement of cash flows is minimal but that doesn't mean to say it won't be examined. It has been examined frequently so you run the risk of ignoring it and it coming up in the exam. You just need to have that basic financial accounting knowledge and if you have that then you can apply it in your financial reporting example. When you go through there looking at your cache you have your opening and then your closing balance and then we look at the movement from the opening to the closing. And I think that's gon na be the starting point if ever you have to go through and do the question okay. The direct method is the one that you are likely to be examined upon which is the in direct method. We reconcile the profits of a cash frigga with regards to your daytoday cash expenses that you have within the business. But the focus here is on this indirect method, which is very strange and complicated, it's confusing.

The Sonne company manufactures and sells solar panels. The Sonne company has a depreciation expense, an amortization expense, and a profit or loss on disposal. The profit or loss on disposal is a noncash item and is just the difference between the proceeds and the carrying value. The Sonne company accounts for the cash aspect of its investing activities by adding the profit or loss on disposal to the balance sheet as a noncash item. The new bit that you have is your deferred tax liability. If you have a deferred tax liability, you need to incorporate it into your financial accounting calculations in the same way that you would incorporate the depreciation and amortization expenses. The Sonne company calculates the profit or loss on disposal by taking the proceeds and subtracting the carrying value of the assets. You will get two of the three if it is not the proceeds that you give.

Your shares are worth $10,000, and you have $8,000 in cash. The bank loans you $4,000, and the share premium (the extra money the company paid over and above the value of your shares) is $2,000. So your total liabilities are $12,000. Your liabilities reduce your equity by $2,000.