# Contents

# Unit 2 – Presentation of financial statements

| Preparing a statement of cash flows | | | | |
|---|---|---|---|---|
| **Worked Example** | **Activity** | **Past Exams** | **Masterclass** | **CSG** |
| 2.1 | - | - | ESQ 2.1 Part A | - |

**Step 1**

Classify items into the following categories:

- Cash
- Operating activity
- Investing activity
- Financing activity
- Non-cash item

**Step 2**

Prepare the following table for Statement of Financial Position.

| Line item | Current Year | Prior Year | Movement | Classification | Specific cash flow |
|---|---|---|---|---|---|
| Item from Statement of Fin Position | A | B | A-B | (See above) | Notes |

**Step 3**

Prepare the following table for Profit or Loss.

| Line item | Current Year | Classification | Specific cash flow |
|---|---|---|---|
| Item from Profit or Loss | A | (See above) | Notes |

**Step 4**

Prepare statement of cash flows using the following table.

| **Item** | **Notes** | **$'000** |
|---|---|---|
| **Cash flows from operating activities** | | |
| *I.e. Receipts from customers* | | **H** |
| *Payments to suppliers, employees and others* | | |
| **Net cash flows from operating activities** | | |
| | | |
| **Cash flows from investing activities** | | |
| **Net cash flows from investing activities** | | |
| | | |
| **Cash flows from financing activities** | | |
| **Net cash flows from net financing activities** | | |
| | | |
| **Net increase / (decrease) in cash and cash equivalents** | | |
| **Cash and cash equivalents for the financial year** | | |

**Step 5**

Prepare T-accounts for each of the items (i.e. Receipts for customers)

*I.e. T-account for cash receipts from customers:* This should be the last item calculated (balancing amount).

| | **Dr** | | **Dr** |
|---|---|---|---|
| Opening trade receivables | A | Closing trade receivables | B |
| Closing allowance for impairment loss | C | Opening allowance for impairment loss | D |
| | | Impairment loss expense | E |
| Sales revenue | F | Bad debts expense | G |
| | | **Receipts from customers** | **H** |
| | **SUM (Above)** | | **SUM (Above)** |

**Step 6**

Enter the amounts from the T-accounts into the table prepared at **Step 4**.

| Preparing the reconciliation of operating cash flows | | | | |
|---|---|---|---|---|
| **Worked Example** | **Activity** | **Past Exams** | **Masterclass** | **CSG** |
| - | 2.1 | - | - | - |

**Step 1**
Determine Profit for the year.

**Step 2**
Make adjustments for all non-cash items (i.e. Depreciation, Loss on disposal, etc).

**Step 3**
Make changes in operating assets and liabilities. Note the movement between prior year and current year. For example, if Trade Receivables have increased by $20k, you will minus $20k in the cash flow calculation as the amount of cash present has decreased. Alternatively, if Trade Payables has increased $20k, you will add $20k in the calculation, as the amount of cash is up as the payables have not yet been paid.

**Step 4**
Add Steps 1 to 3 together.

Demonstrate in the following table:

| | **YEAR $** |
|---|---|
| Profit for the year after tax Step 1 | X |
| **Adjustments for** Step 2 | |
| Depreciation | A |
| Loss on disposal | B |
| | **SUM (A+B) = S1** |
| **Changes in operating assets and liabilities** Step 3 | |
| Trade receivables *Items are examples… there may be others* | +/- C |
| Prepayments | +/- D |
| Inventory | +/- E |
| Trade payables | +/- F |
| Provision for employee entitlements | +/- G |
| Current tax payable | +/- H |
| | **SUM (C:H) = S2** |
| **Net cash flows from/(used in) operating activities** Step 4 | **=X+S1+S2** |

# Unit 3 – Revenue from Contracts with Customers

Dr Cash

Cr Revenue

Cr Unearned Revenue

Receive cash at start of contract – apportion for unearned revenue part if Cash>revenue recognised.

Dr COS

Cr Inventory

Recognise Cost of sales on inventory sold (Units x cost)

Dr WE

CR Provision for Warranty

Recognise provision for warranty (does not reduce transaction price)

# Unit 4 – Income taxes

| Calculating the current tax liability | | | | |
|---|---|---|---|---|
| **Worked Example** | **Activity** | **Past Exams** | **Masterclass** | **CSG** |
| 4.1 | - | - | - | - |

**Step 1**

Prepare and populate the following table based on background info.

| Item | $'000 | $'000 |
|---|---|---|
| **Accounting profit before tax** | | A |
| **1. Non-temporary difference adjustments** | | |
| *Items where the tax and accounting treatment are never the same.* | | |
| | | B |
| **2. Temporary difference adjustments** | | |
| *Items where the tax and accounting treatments are the same but in different periods *below* | | |
| | | C |
| **3. Equity or OCI adjustments affecting taxable income** | | |
| *Equity or OCI differences affecting taxable income* | | |
| | | D |
| **Taxable income** | | A+B+C+D = E |
| - **LESS** imputation gross up (Franked dividends × tax rate × tax rate/(1-tax rate) | | F |
| - **LESS** tax credits | | G |
| **= NET TAX PAYABLE** | | E-F-G = H |
| **× TAX RATE** | | (given) |
| **Current tax liability at (*Tax Rate*)** | | H x tax rate |

*For example,

| | | |
|---|---|---|
| **+ ADD**<br>Accounting expense not deductible for tax / income assessable for tax purpose. E.g.:<br>▪ Accounting depreciation<br>▪ Warranty expense<br>▪ Employee benefit expense<br>▪ Fines<br>▪ Entertainment expense<br>▪ Bad debts expense<br>▪ Unearned income for current year (assessable for tax purposes)<br>▪ Goodwill impairment<br>▪ Unearned income<br>▪ Finance lease expense (depreciation and interest)<br>▪ Imputation gross-up (Franked dividends × tax rate × tax rate/(1-tax rate)). | | B |
| **- LESS**<br>Accounting income not assessable for tax / items deductible for tax purposes. E.g.:<br>▪ Unearned income from the prior year<br>▪ Tax depreciation<br>▪ Warranty payments made (Opening + expense – closing = payments made)<br>▪ Leave payments made (Opening + expense – closing = payments made)<br>▪ Dividend receivable | C | |

**Step 2 – Record the following (relevant) journals**

Record net tax payable (current tax liability if no prior tax credits)

| Date | Account | Dr | Cr |
|---|---|---|---|
| XX.XX.XX | Income tax expense | H | |
| XX.XX.XX | Current tax liability | | H |
| To record the current tax liability | | | |

Record DTA relating to tax loss. Note: the same journal can be used when recording a reassessment of a DTA, however Dr to Increase and Cr to Decrease.

| Date | Account | Dr | Cr |
|---|---|---|---|
| XX.XX.XX | DTA (tax loss × tax rate) | XX | |
| XX.XX.XX | Current tax liability | | XX |
| To record DTA relating to tax loss. IAS 12, Para 34 | | | |

Using the tax loss credit in the next year. (i.e. utilising the tax loss from the journal above)

| Date | Account | Dr | Cr |
|---|---|---|---|
| XX.XX.XX | Current tax liability | XX | |
| XX.XX.XX | DTA | | XX |
| To record using the prior year tax credit from tax loss to offset current tax liability | | | |

## Calculating the tax base and temporary differences

| Worked Example | Activity | Past Exams | Masterclass | CSG |
|---|---|---|---|---|
| 4.2, 4.3 | - | - | - | Page 15 |

**Step 1**

Remember the following:

| Assets | | | | | | |
|---|---|---|---|---|---|---|
| Carrying amount | > | Tax base | = | Taxable temporary difference | A |
| Carrying amount | < | Tax base | = | Deductible temporary difference | B |
| **Liabilities** | | | | | |
| Carrying amount | > | Tax base | = | Deductible temporary difference | B |
| Carrying amount | < | Tax base | = | Taxable temporary difference | A |

**Step 2**

Create the following table and record the carrying amount, tax base and the temporary differences.

| Item | Carrying amount | Tax base* | Taxable temporary difference (A) | Deductible temporary difference (B) | Taxable temporary difference (equity) | Deductible temporary difference (equity) |
|---|---|---|---|---|---|---|
| **Assets**<br>Net of any accumulated depreciation, impairment, allowance for doubtful debts. | | | | | | |
| *e.g. trade debtor* | Net of allowance | Full amount | | | | |
| *e.g. PPE that has been revalued* | CA (after reval) | Cost – tax deprec. | Tax base – CA if no revaluation had occurred | | CA after revaluation – CA if no revaluation had occurred | |
| **Liabilities** | | | | | | |
| *e.g. provisions* | $X | 0 | | X | | |
| *e.g. unearned income* | $X | 0 | | X | | |
| **Other income**<br>Not assessable for tax until next year | 0 | $X | X | | | |
| **Total** | | | ∑ | ∑ | | |
| ***Less:*** excluded temporary differences (i.e. goodwill) | | | | | | |
| **Total temporary differences** | | | ∑ = C | ∑ = D | | |
| DTL/DTA at tax rate | | | C x tax rate | D x tax rate | | |
| ***Less:*** opening balances | | | Opening bal DTL | Opening Bal DTA | | |
| Movement | | | DTL – opening (A) | DTA – opening (B) | | |

**Step 3**

Prepare the journal

Profit and loss:

| Date | Account | Dr | Cr |
|---|---|---|---|
| XX.XX.XX | DTA | B (Increase) | (Decrease) |
| XX.XX.XX | DTL | (Decrease) | A (Increase) |
| XX.XX.XX | Income tax expense | | Offset amount |
| To record deferred tax for the year. | | | |

OCI

| Date | Account | Dr | Cr |
|---|---|---|---|
| XX.XX.XX | Revaluation surplus | Decrease | I ncrease |
| XX.XX.XX | DTL | Decrease | Increase |
| To record the tax effect of the revaluation adjustment. Upwards revaluation -> debit; downwards revaluation -> credit; for costs included in equity, Cr Share Capital | | | |