

# [Brighton pebbles ltd](https://assignbuster.com/brighton-pebbles-ltd/)

[Business](https://assignbuster.com/essay-subjects/business/)

Adjusting Entries Depreciation - 175, 000 Provision for Depreciation 175, 000 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ P&L Account 175, 000 Depreciation 175, 000
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3)
Interest Expense 56000
Cash 25000
Interest payable 31000
Working
Interest on 700 @8% = 700, 000 x 8/100 = 56, 000
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4)
Gas & Electricity Expense 30, 000
Payables 30, 000
Two months during this year account for only 30000
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5)
Bad Debts 45000
Provision for bad debts 45000
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6)
Equipment- Non-Current Asset 75000
Operating Expense 75000
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7)
Impairment Loss 110, 000
Building- Non Current Assets 110, 000
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Income Statement
Brighton Pebbles Ltd
For the year ended 30th June 2008
Sales 4, 900, 000
Cost of Goods Sold (Working-III) (3, 350, 000)
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Gross Profit 1, 550, 000
Operating Expenses (Working-I) (700, 000)
Interest Expense (Working-II) (56, 000)
Impairment Loss (110, 000)
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Net Profit 684, 000

Balance Sheet
Brighton Pebbles Ltd
As on 30th June 2008
Assets
Non Current Assets 1, 840, 000
\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
Total Non-Current Assets 1, 840, 000
\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
Current Assets
Inventory 550, 000
Receivables 355, 000
Cash 475, 000
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Total Current Asset 1, 380, 000
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Total Assets 3, 220, 000
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Liabilities & Owners Equity
Bank loan (at 8% interest)
700, 000
Payables
355, 000
Interest Payable
31, 000
Share Capital
2, 134, 000
\_\_\_\_\_\_\_\_
Total
3, 220, 000
Working - 1
Operating Expense as per Trial Balance = 525, 000
Depreciation = 175, 000
Gas & Electricity = 30, 000
Bad Debts = 45, 000
\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
Total 775, 000
Non current asset (75, 000)
\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
Total Expense 700, 000
Working II
700, 000 X 8% = 56, 000
Working III
Cost of Goods Sold = Op. Stock + Purchases - Closing Stock
= 600, 000+3, 300, 000 - 550, 000
COGS = 3, 350, 000
Working IV
Share Capital = Op. Profit + Share Capital + Profit for the year
= 350, 000 + 1100, 000++684, 000
= 2, 134, 000
Q#2
1)
I work in a consultancy and for a firm providing services, the increase or decrease in cash is considered as vital because it can define the overall management of the firm in terms overall financial management. Cash is considered as one of the most important which an organization manages because it ultimately determines the liquidity of the firm. The increase or decrease in the cash is important in the sense that it clearly established where the money i. e. cash has been utilised. If we analyze a cash flow statement of any firm, we will notice that it is divided into three different parts i. e. operations, investing and financing. The operating activities section mentions the movement of cash flows into those areas which are mostly related with the generation of profit therefore this section of the cash flow clearly indicates the increase or decrease of cash flows into those activities which can be attributed to the earning of profit therefore the movement or increase of decrease of cash into those areas define how much cash has been spent or earned in those activities. This is more significant than profit and loss because profit and loss changes do not indicate whether and how the money has been spent into operating activities. Similarities, increase or decrease of cash into the investing activities suggest the actual cash outlay been made into investing activities made by the firm. It also further indicates that the cash put into investing activities would clearly define how and where the investment have been made and in what quantity- changes and profit and loss do not indicate such information to the shareholders. Similarly, increase or decrease of cash as indicated in financing activities do inform us about how the operating and financing activities of the firm are financed. What internal and external sources of cash have been poured into the firm to finance such activities.
It is also critical to understand that an analysis of the increase or decrease in the cash of the firm can serve as a strong short term planning tool and would greatly help firm to spot the areas where focus can be shifted to generate more cash to become more liquid in nature. (Johnson, Whittam, & Crawford, 1998). Further, it can also serve as a strong indicator of how the cash flow projections for the future can be made and what direction a firm can take provided it has certain level of cash flows generated from its operations. A profit and loss can not provide such information and planning tools to clearly establish at least short term planning essential for managing assets of the firm.
The movement of the cash within the organization is considered to be limited into these three main categories. Therefore the decrease or increase of cash is different to the profit and loss because P&L do not inform us about above issues.
2)
It is very easy that a firm may look profitable if we look at its profit and loss statement and may seem a going concern however a closer look at the cash flow statement may suggest a different story. A profitable firm may not be liquid enough therefore may not have the ability to generate required cash to pay off its most emerging liabilities. Since, a firm incur two types of liabilities i. e. one is current and other is non-current. Current liabilities are financed through current assets therefore cash being one of the most important and significant portion of the current assets is one critical component which helps organizations to pay off its current liabilities and if a firm does not have enough cash, it can default on its repayment therefore a cash flow statement clearly informs us about the solvency and liquidity of the firm. (Pyke, 2000).
Cash Flow Statement also indicates to an external reader, the financial management decisions being made over the period of time and provide a good tool to evaluate how the firm is being managed financially. For an external reader, willing to make investment into that firm, will look at this statement more closely because the price of firm's stock is largely determined by the projections or the future expectations of the cash flows to be generated by the firm.
Secondly, the profit and loss figure, as reported in the profit and loss statement may easily be manipulated because of the use of the some of the creative accounting methods therefore can project a false picture of the firm's affairs however cash flow statement prove as a better indicator of the overall affairs of the firm and for a shareholder, this can serve as a more better presentation of facts and figures rather than profit and loss account.
It is because of the above reasons that the cash flow statement is considered as necessary and useful even if profit and loss statement is provided to the users.
Bibliography
1. Johnson, H., Whittam, A., & Crawford, M. (1998). A Practical Foundation in Accounting. New York: Cengage Learning EMEA,.
2. Pyke, C. J. (2000). Cash flow statements. Retrieved October 16, 2008, from ACCA: http://www. accaglobal. com/students/publications/student\_accountant/archive/2000/7/13213