

# CHAPTER 5

## STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

Intermediate Accounting

IFRS Edition

Presented By:

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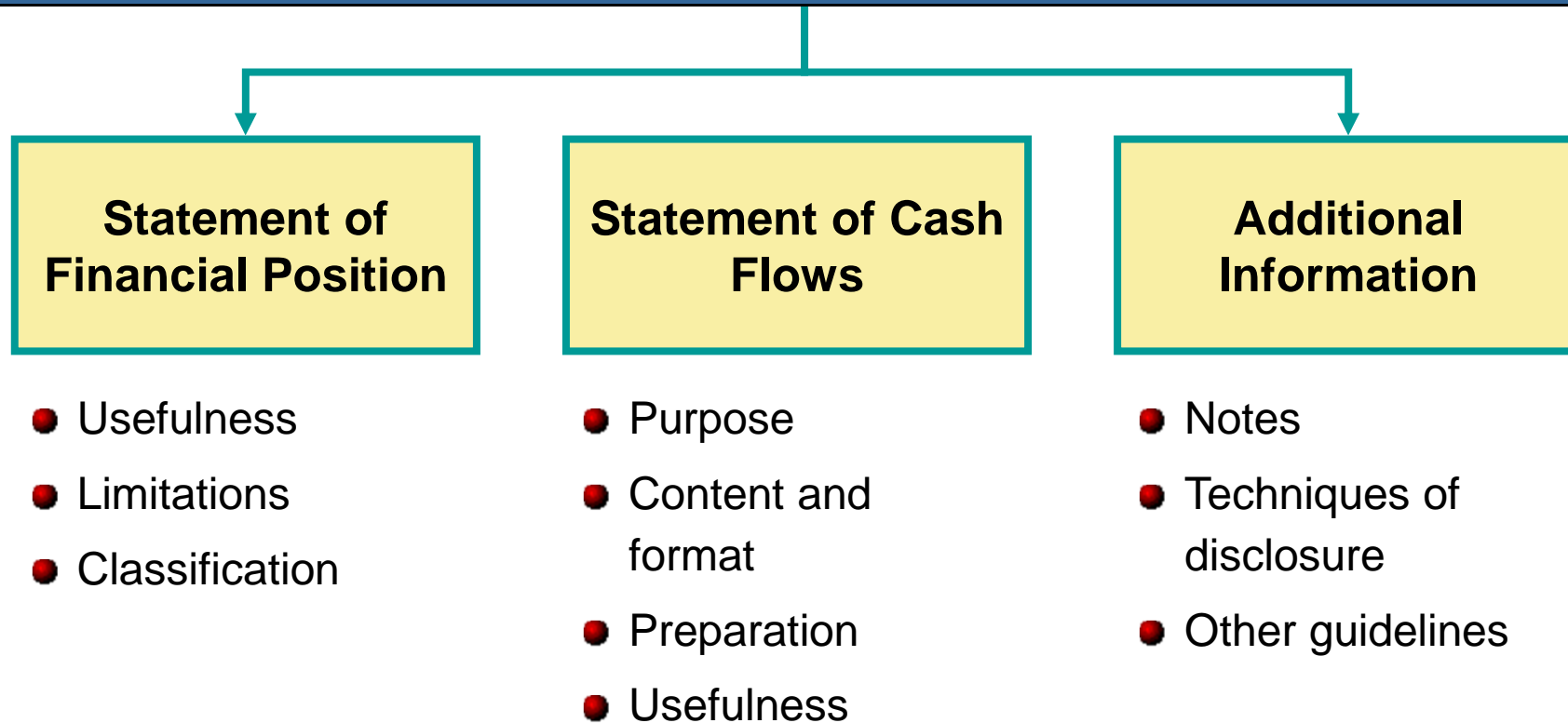
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# Learning Objectives

1. Explain the uses and limitations of a statement of financial position.
2. Identify the major classifications of the statement of financial position.
3. Prepare a classified statement of financial position using the report and account formats.
4. Indicate the purpose of the statement of cash flows.
5. Identify the content of the statement of cash flows.
6. Prepare a basic statement of cash flows.
7. Understand the usefulness of the statement of cash flows.
8. Determine additional information requiring note disclosure.
9. Describe the major disclosure techniques for financial statements.

# Statement of Financial Position and Statement of Cash Flows



# Statement of Financial Position

**Statement of Financial Position**, also referred to as the **balance sheet**:

1. Reports assets, liabilities, and equity at a specific date.
2. Provides information about resources, obligations to creditors, and equity in net resources.
3. Helps in predicting amounts, timing, and uncertainty of future cash flows.

# Statement of Financial Position

## Usefulness

- Computing rates of return.
- Evaluating capital structure.
- Assess risk and future cash flows.
- Analyze company's:
  - Liquidity
  - Solvency
  - Financial flexibility

# Statement of Financial Position

## Limitations

- Most assets and liabilities are reported at historical cost.
- Use of judgments and estimates.
- Many items of financial value are omitted.

# Statement of Financial Position

## Classification

### ELEMENTS OF THE STATEMENT OF FINANCIAL POSITION

- 1 ASSET.** Resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.
- 2 LIABILITY.** Present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
- 3 EQUITY.** Residual interest in the assets of the entity after deducting all its liabilities.

# Classification

## Account Form

Illustration 5-17

SCIENTIFIC PRODUCTS, INC. STATEMENT OF FINANCIAL POSITION DECEMBER 31, 2011			
Assets			
<b>Non-current assets</b>			
<i>Long-term investments</i>			
Investments in held-to-maturity securities	\$ 82,000		
Land held for future development	5,500		\$ 87,500
<i>Property, plant, and equipment</i>			
Land		125,000	
Buildings	\$975,800		
Less: Accumulated depreciation	341,200	634,600	
Total property, plant, and equipment			759,600
<i>Intangible assets</i>			
Capitalized development costs	6,000		
Goodwill	66,000		
Other identifiable intangible assets	28,000		100,000
<b>Total non-current assets</b>			<b>947,100</b>
<b>Current assets</b>			
Inventories		489,713	
Accounts receivable	165,824		
Less: Allowance for doubtful accounts	1,850	163,974	
Prepaid expenses		16,252	
Short-term investments		51,030	
Cash and cash equivalents		52,485	
<b>Total current assets</b>			<b>773,454</b>
<b>Total assets</b>			<b>\$1,720,554</b>

Equity and Liabilities			
<b>Equity</b>			
Share capital—preference	\$300,000		
Share capital—ordinary	400,000		
Share premium—preference	10,000		
Share premium—ordinary	27,500		
Retained earnings	170,482		
Accumulated other comprehensive income	(8,650)		
Less: Treasury shares	12,750		
Equity attributable to owners		\$886,582	
Minority interest		13,500	
<b>Total equity</b>			<b>\$ 900,082</b>
<b>Non-current liabilities</b>			
Bond liabilities due January 31, 2020	425,000		
Provisions related to pensions	75,000		
<b>Total non-current liabilities</b>			<b>500,000</b>
<b>Current liabilities</b>			
Notes payable	80,000		
Accounts payable	197,532		
Interest payable	20,500		
Salary and wages payable	5,560		
Provisions related to warranties	12,500		
Deposits received from customers	4,380		
<b>Total current liabilities</b>		<b>320,472</b>	
<b>Total liabilities</b>			<b>820,472</b>
<b>Total equity and liabilities</b>			<b>\$1,720,554</b>



# Classification

## Report Form

Illustration 5-17

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# Purpose of the Statement of Cash Flows

**Primary Purpose:** To provide relevant information about the *cash receipts* and *cash payments* of an enterprise during a period.

The statement provides answers to the following questions:

1. Where did the cash come from?
2. What was the cash used for?
3. What was the change in the cash balance?

# Content and Format

## Operating

Cash inflows and outflows from operations.

## Investing

Cash inflows and outflows from non-current assets.

## Financing

Cash inflows and outflows from non-current liabilities and equity.

Statement helps users evaluate liquidity, solvency, and financial flexibility.

# Content and Format

Illustration 5-19

