

## Accounting Equation & Double Entry

Assets = Liabilities + Equity

Debit increases: Assets · Expenses · Drawings

Credit increases: Liabilities · Equity · Income

## Depreciation

Straight-line =  $(\text{Cost} - \text{Residual value}) \div \text{Useful life}$

Reducing balance =  $\text{Carrying amount} \times \text{Rate } \%$

Carrying amount =  $\text{Cost} - \text{Accumulated depreciation}$

## Inventory (IAS 2)

Value at: lower of cost and net realisable value

NRV =  $\text{Selling price} - \text{Costs to complete} - \text{Selling costs}$

Cost of sales =  $\text{Opening inventory} + \text{Purchases} - \text{Closing inventory}$

## Accruals & Prepayments

Accrual: Dr Expense Cr Accruals (expense incurred, not yet paid)

Prepayment: Dr Prepayment Cr Expense (paid in advance)

Accrued income: Dr Accrued income Cr Income

Deferred income: Dr Income Cr Deferred income

## Receivables & Irrecoverable Debts

Write off: Dr Irrecoverable debt expense Cr Receivables

Allowance increase: Dr Irrecoverable debt expense Cr Allowance

Allowance decrease: Dr Allowance Cr Irrecoverable debt expense

## Bank Reconciliation

Balance per bank statement

+ Deposits in transit (receipts not yet on bank statement)

– Outstanding cheques (payments not yet on bank statement)

± Bank errors = Corrected bank balance

*Must equal the corrected cash book balance*

## Trial Balance — Errors

Affect the TB: single-sided entry, unequal amounts

Do NOT affect: omission, reversal, compensating, wrong account, principle

*Require journal correction — may need a suspense account*

## Statement of Cash Flows — Indirect

Profit before tax + Depreciation + Impairment – Profit on disposal

± Working capital:  $\uparrow \text{Inventory} - \cdot \uparrow \text{Receivables} - \cdot \uparrow \text{Payables} +$

*Investing: asset purchases/disposals · Financing: debt/equity/dividends*

## IFRS 18 — Statement Structure

SFP: NCA | CA | Equity | NCL | CL

P&L categories: Operating | Investing | Financing | Discontinued |

Tax

*Finance costs below operating profit, in the Financing category*

## Consolidation — Basic

Goodwill =  $\text{Consideration} + \text{NCI at acquisition} - \text{FV net assets acquired}$

NCI (proportionate) =  $\text{FV of net assets at acquisition} \times \text{NCI } \%$

Group RE =  $\text{Parent RE} + \text{Parent } \% \times \text{sub post-acquisition RE}$

*Eliminate: intragroup sales, balances, unrealised profit on inventory*

## Events After the Reporting Period

Adjusting: conditions existing at the reporting date

Non-adjusting: conditions arising after the reporting date

*Disclose non-adjusting events if material — do not adjust figures*

## Interpretation — Key Ratios

ROCE =  $\text{PBIT} \div \text{Capital employed} \times 100$

Gross margin =  $\text{Gross profit} \div \text{Revenue} \times 100$  Net margin =  $\text{PBIT} \div \text{Revenue} \times 100$

Asset turnover =  $\text{Revenue} \div \text{Capital employed}$

*ROCE = Profit margin  $\times$  Asset turnover*

Current ratio =  $\text{Current assets} \div \text{Current liabilities}$

Quick ratio =  $(\text{Current assets} - \text{Inventory}) \div \text{Current liabilities}$

Gearing =  $\text{Debt} \div (\text{Debt} + \text{Equity}) \times 100$

Interest cover =  $\text{PBIT} \div \text{Finance costs}$

Receivable days =  $\text{Receivables} \div \text{Revenue} \times 365$

Payable days =  $\text{Payables} \div \text{Cost of sales} \times 365$

Inventory days =  $\text{Inventory} \div \text{Cost of sales} \times 365$

## Incomplete Records

Opening capital =  $\text{Assets} - \text{Liabilities}$

Profit =  $\text{Closing capital} - \text{Opening capital} + \text{Drawings} - \text{Capital introduced}$

Missing figure: use the accounting equation to find the unknown