

Lecture examples - Notes for Tutors

Example 1 can be used after lecture slide 6

Example 2 can be used after lecture slide 16

Examples 3 and 4 can be used after lecture slide 21: Example 3 provides account categories in the pro forma statement of financial position to enable students to see where the figures are entered; Example 4 requires them to think about whether each account balance is an asset, liability or element of equity and whether assets and liabilities are current or non-current

Example 5 can be used after lecture slide 27

Example 1: Recognizing Assets (Pages 32-35)

Consider each of the following resources in a computer manufacturer and decide whether they can be recognized as assets in the statement of financial position or not. Follow each of the steps in the table, deciding whether each resource is controlled by the entity, whether it arises as a result of a past event, whether it has the potential to produce economic benefits and whether the resource can be faithfully represented in money terms. Conclude whether each of the resources can be recognized as an asset by the computer manufacturer – remember that all four criteria must be met in order to recognize a resource as an asset: if each resource fails on just one criterion then no asset can be recognized.

	Control?	Past Event?	Potential to Produce Economic Benefits?	Faithful Representation in Money Terms	Recognize as an asset?
Factory building bought 5 years ago for £1.2m and used for production of tablet computers.					
Tablet computers ready for sale to customers. Each tablet computer was produced at a cost of £75 and is currently selling for £150.					
£15,000 owed by a large company. There is no reason to believe that the company will not pay the £15,000 owed.					
Computer chips used in a range of personal computers that was discontinued 5 years ago. The total cost of the chips was £25,000 but the current resale value of these chips is £nil.					
The technological skills of the workforce which management are unable to value with any degree of accuracy.					

Example 2: Assets and Liabilities Classification (Pages 36-40 and 43-45)

Indicate (✓) whether each of the following would be treated as a non-current asset, a current asset, a current liability or a non-current liability in the books of a stationery wholesaler with a year end of 30 April 2020:

	Non-Current Asset	Current Asset	Current Liability	Non-Current Liability
Warehouse and offices				
Mortgage loan due for repayment on 1 May 2025				
Amount owed by customer				
Goods for resale				
Amount owed to supplier				
Positive balance at the bank				
Taxation due				
Amount owed for electricity				
Insurance refund due				
Delivery vans				

Example 3: Constructing the Statement of Financial Position (pages 50-53)

Joanna is a sole trader, buying and selling electronic equipment to businesses and members of the public. At 30 June 2020 she has the following balances in her books of account:

	£
Capital account at 1 July 2019	14,480
Delivery van	12,000
Trade receivables	25,600
Profit for the year to 30 June 2020	32,720
Inventory at 30 June 2020	15,400
Fixtures and fittings	20,350
Office equipment	18,000
Trade payables	27,500
Taxation due	8,400
Joanna's drawings during the year to 30 June 2020	20,000
Cash at bank	3,750
Loan due for repayment on 30 June 2026	32,000

Required

Using the grid below and the list of balances above, prepare Joanna's statement of financial position at 30 June 2020.

Joanna: Statement of Financial Position at 30 June 2020

	£
Non-Current Assets	
Delivery van	
Fixtures and fittings	
Office equipment	
Current Assets	
Inventory	
Trade receivables	
Cash at bank	
Total Assets	
Current Liabilities	
Trade payables	
Taxation due	
Non-Current Liabilities: Loan	
Total Liabilities	
Net Assets	
Capital Account	
Capital at 1 July 2019	
Profit for the year	
Drawings	
Capital at 30 June 2020	

Example 4: Constructing the Statement of Financial Position (pages 50-53)

Catherine Limited produces and sells cooking equipment to businesses and members of the public. At 30 September 2020 Catherine Limited had the following balances in its books of account:

	£
Inventory	35,000
Trade payables	40,000
Share premium	28,700
Long-term investments	10,000
Retained profit for the year to 30 September 2020	51,745
Trade receivables	42,750
Bank overdraft	10,315
Plant and machinery	98,235
Share capital	25,000
Factory building and offices	250,000
Retained earnings at 1 October 2019	130,225
Loan due for repayment on 30 September 2023	150,000

Required: Using the grid below and the list of balances above, prepare Catherine Limited's statement of financial position at 30 September 2020.

Notes:

- First of all, you will have to decide whether the above balances represent assets, liabilities or equity
- Assets and liabilities will then have to be divided into non-current and current
- Non-current assets: two balances will have to be added together to determine the total figure for property, plant and equipment (PPE)
- Retained earnings will also be made up of two of the above balances added together

Catherine Limited: Statement of Financial Position at 30 September 2020

	£
Non-Current Assets	
Current Assets	
Total Assets	
Current Liabilities	
Non-Current Liabilities:	
Total Liabilities	
Net Assets	
Equity	

Example 5: Dual Aspect Concept (pages 58-61)

Jack's statement of financial position at 31 March 2020 is shown below.

On 1 April 2020, Jack's business has the following financial transactions:

1. Buys £2,500 of inventory for cash
2. A trade receivable pays Jack the £5,000 owed
3. A loan of £50,000 was received from the bank. This loan is due for repayment in 5 years' time
4. New machinery was purchased for cash of £55,000
5. A trade payable owed £7,800 was paid in cash

Required:

Enter the above transactions in the grid below. Remember to enter each transaction against two account headings. Once you have posted all the transactions to the relevant accounts, add up the new balances on each account and balance the statement of financial position at 1 April 2020.

Notes

- ♦ Some transactions will increase the two relevant accounts
- ♦ Some transactions will decrease the two relevant accounts
- ♦ Some transactions will increase one of the relevant accounts and decrease the other relevant account

Think about which accounts are affected by each transaction and whether the transaction will increase or decrease each account in question.

Jack: Statement of Financial Position at 31 March 2020 and 1 April 2020

	SoFP at 31 March 2020		SoFP at 1 April 2020
	£	Transactions on 1 April 2020	£
Non-Current Assets			
Plant and machinery	150,000		
Current Assets			
Inventory	25,000		
Trade receivables	36,750		
Cash	10,425		
	72,175		
Total Assets	222,175		
Current Liabilities			
Trade payables	22,800		
Non-Current Liabilities			
Loan	—		
Total Liabilities	22,800		
Net Assets = Capital	199,375		