TSSM™
Creating VCE Success

Accounting
Teach Yourself Series
Topic 8: Accounting Reports

A: Level 14, 474 Flinders Street Melbourne VIC 3000
T: 1300 134 518 **W:** tssm.com.au **E:** info@tssm.com.au

Contents

Accounting Reports

Recording involves sorting and classifying financial transactions so they can be easily located and stored. Once financial records have been prepared it is necessary to report on the performance of a business over a reporting period and then assess the performance of that business.

This assessment requires the preparation of financial accounting reports.

Initial terminology

As it appears in Units 1 - 4

Financial reports summarise the performance of a business in three key areas:

These areas are:

- Cash flow – the sources and uses of cash by a business over a reporting period. This is seen in the Statement of Receipts and Payments (Unit 1) and the Cash Flow Statement (Units 2-4).

- Income Statement– the revenue earned and the expenses incurred over a reporting period to determine the profit or loss for that period. This is found in the Income Statement.

- Balance Sheet – the financial position of a business with respect to its assets and obligations at a particular point in time. Financial position is determined through the preparation of a Balance Sheet.

As it appears in Units 1-4

In Unit 1 many of the businesses studied are service businesses. Businesses provide some service to customers in exchange for cash. Credit transactions are not considered.

In Units 2-4 the businesses studied are trading businesses. Businesses buy inventory and resell that inventory at a higher price. Sales are made on a cash and a credit basis. Inventory is purchased using cash or credit. Cash flows relating to Accounts Receivable and Accounts Payable must be reported.

The report for cash is more formal – the report is classified to allow better decision-making. A classified cash Flow Statement is a tool for improving the decision-making of a business owner. A Cash Flow Statement can be used to:

1. Aid decision-making about cash by identifying sources and uses of cash.
2. Identify if the day-to-day cash flow can support expansion.
3. Identify if the business is meeting its cash targets.
4. Identify any cash variances and suggest corrective action(s).
5. Provide information for future planning (Unit 4).

In a Cash Flow Statement receipts are referred to as ***Inflows*** and payments are referred to as ***Outflows***

A Classified Cash Flow Statement will separate the receipts and payments into one of 3 categories:

1. *Operating Activities* – all the cash flows related to the businesses day-to-day trading activities (buying and selling inventory & running the business).

2. *Investing Activities* – cash flows relating to the purchase and sale of non-current assets.

3. *Financing Activities* – cash flows relating to changes in the businesses financial structure. Transactions that change loans/mortgages and owner's equity.

An example of a classified Cash Flow Statement is shown below:

Potter's Pottery
Cash Flow Statement for year ended 31 December 2024

Cash Flows from Operating Activities		
Inflows		
Cash Sales	320 000	
Receipts from Accounts Receivable	588 000	
GST Collected	32 000	940 000
Outflows		
GST Clearing	(45 000)	
GST Paid	(36 000)	
Payments to Accounts Payable	(240 000)	
Purchases of Inventory	(320 000)	
Accrued Wages	(12 000)	
Prepaid Insurance Expense	(14 000)	
Wages	(85 000)	
Rent	(30 000)	
Interest Expense	(7 000)	789 000
Net cash from Operating Activities		151 000
Cash Flows from Investing Activities		
Inflows		
Proceeds from Sale of Equipment		5 000
Outflows		
Purchase of Equipment		(30 000)
Net cash from Investing Activities		(25 000)
Cash Flows from Financing Activities		
Inflows		
Loan - AB Ltd	10 000	
Capital	10 000	20 000
Outflows		
Loan	(30 000)	
Drawings	(80 000)	(110 000)
Net cash from Investing Activities		(90 000)
Change in cash held		16 000
Cash at 1/1/24		15 000
Cash at 31/12/24		31 000