Polish Financial Statements

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Introduction

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CFA, CIMA, ACCA examination – options available at Krakow University of Economics

https://acca.uek.krakow.pl/

in English:

https://postdiploma_acca.uek.krakow.pl/

Cash transactions

Cash „-”	Cash „+”
Paying salaries lowers **cash**	*Receiving money* borrowed from a bank raises **cash**
Paying for equipment lowers **cash**	*Receiving money* from investors for stock raises **cash**.
Paying off a loan lowers **cash**.	*Receiving money* from customers raises **cash**

Non-cash transactions

- company activities where no cash moves into or out of the company's accounts.
- they have no effect on the *Cash Flow Statement*, but they can affect the *Income Statement* and *Balance Sheet*
- Examples of non-cash transactions include:

shipping a product to a customer
receiving supplies from a vendor
receiving raw materials required to make the product

For these material transfer transactions, no cash actually changes hands during the transaction proper, only later (when customer pays for the product, when company pays for materials etc)

Cash-flow

- A **positive cash flow** for a period means the company has more cash at the end of the period than at the beginning (a **negative** - …less..)
- If a company has a continuing negative cash flow, it runs the risk of running out of cash and not being able to pay its bills when due — just another way of saying ***broke...tapped-out...insolvent.***

Cash-flow statement

- The primary purpose of a statement of cash flows is to provide relevant information about
  - the cash receipts (cash inflows) and
  - cash payments (cash outflows) of an enterprise during a period.
- To achieve this purpose and to aid investors and others in their analysis of cash, the statement of cash flows reports:
  - the cash effects of an enterprise's operations during a period,
  - its investing transactions,
  - its financing transactions,
  - and the net increase or decrease in cash during the period.

Cash-flow statement

- The statement of cash flows helps to determine the ability of a business to continue running its day to day business operations,
- The Cash Flow Statement tracks the movement of cash through the business over a period of time

Cash-flow statement

- Cash receipts and cash payments during a period are classified in the statement of cash flows into three different activities – operating, investing, and financing activities. These classifications are defined as follows:
- **Operating activities**
- **Investing activities**
- **Financing activities**

Cash-flow statement

- **Operating activities** involve the cash effects of transactions that enter into the determination of net income,

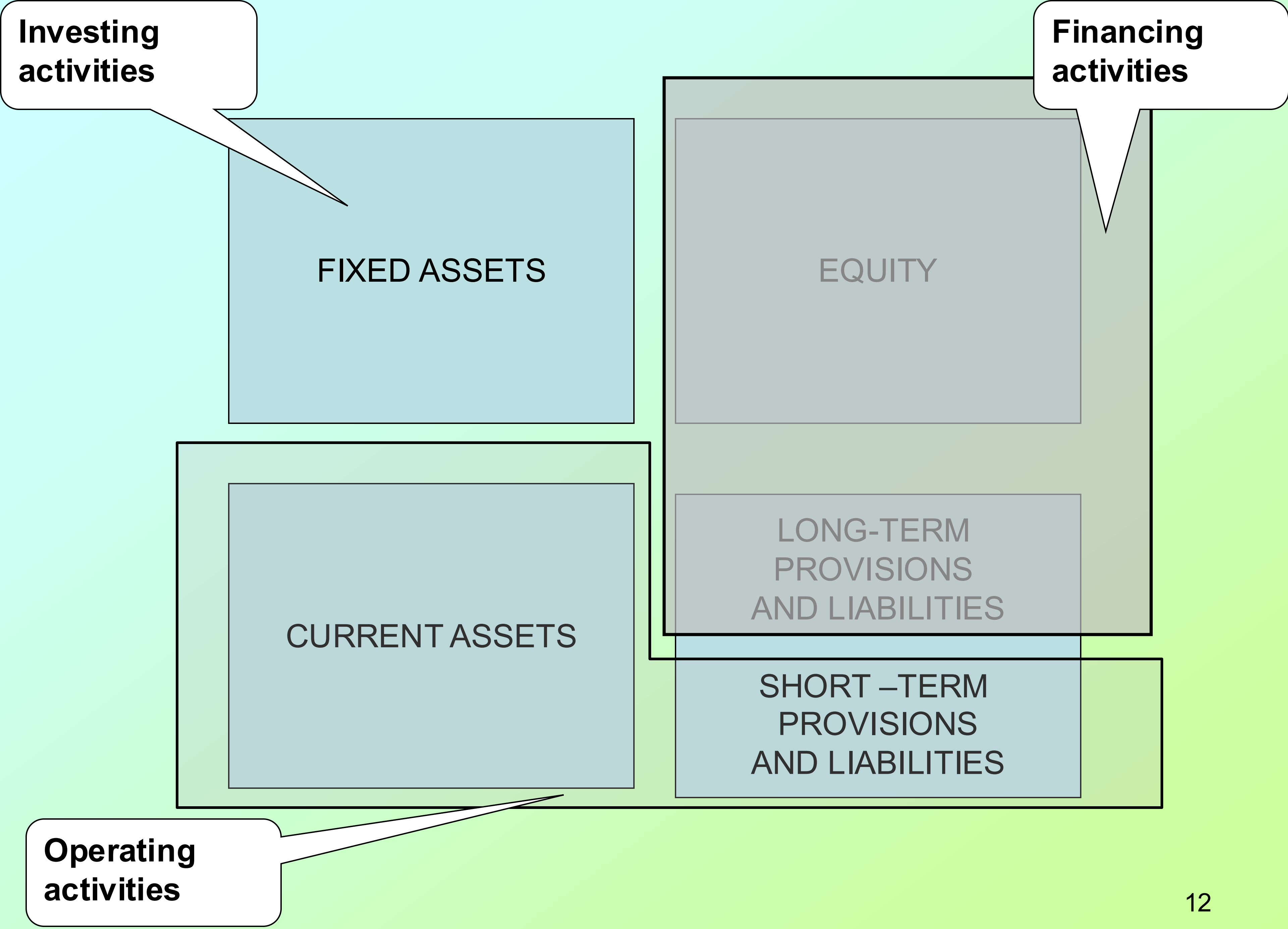
- This refers to the money that the business spends on running day to day operations,
- Some of the activities to include under the operating cash flows include the money obtained from the selling of goods and services, money spent on paying rent, salaries, etc.

Cash-flow statement

- **Investing activities** include making and collecting borrowings (loans) and acquiring and disposing of investments (both debt and equity) and property, plant and equipment,
- This refers to the money earned or spent from market securities or long term assets. For instance, money earned from selling and buying of fixed assets and marketable securities, among others. In simple terms, the money spent or earned from other investment activities apart from day to day business operations

Cash-flow statement

- **Financing activities** involve liability and owners' equity items that include (a) obtaining capital from owners and providing them with a return on (an a return of) their investment and (b) borrowing money from creditors and repaying the amounts borrowed.
- The other section of the cash flow statement will include money earned or spent on financing activities.
- This includes the amount of money earned or spent due to cash or cash related transactions between the company and its owners, investors, or lenders. For instance, if the owners of the business take dividends from the business, it will be listed under the financing activities. At the same time, owners injecting capital or borrowing money from lenders can also fall under investing activities.


Investing activities
Financing activities
FIXED ASSETS
EQUITY
LONG-TERM PROVISIONS AND LIABILITIES
CURRENT ASSETS
SHORT –TERM PROVISIONS AND LIABILITIES
Operating activities

Direct format of CF statement

- Under the direct method (or income statement method, a direct format), we take all cash receipts and cash disbursements that took place during the year and decide whether they were represented operating, investing or financing activities.
- We sort them according to the type of the activity and calculate net cash flows from operating, investing and financing activities.
- Afterwards, we sum up net cash flows from these three types of activities, and end up with a balance sheet change of cash, which is explained by all listed cash receipts and payments.

Direct format of CF statement

- **Operating activities:**
- +cash received from customers
- -cash paid to suppliers
- -cash paid to and on behalf of employees
- - other cash payments (tax)
- **Investing activities:**
- -Purchase of subsidiary undertaking
- +Sale of investment in associated undertaking
- +Sale of trade investment
- -Purchase of fixed assets
- -Net cash outflow in respect of unsuccessful takeover bid
- -Interest received
- +Dividends received from associated undertaking
- -Dividends paid to minority shareholders in subsidiary undertaking
- **Financing activities**
- -Interest paid
- -Ordinary dividends paid
- -Interest element of finance lease payments
- +Issue of ordinary share capital
- -Expenses of issue of shares
- -Redemption on preference share capital
- +Issue of debentures
- +/- Medium-term bank loans
- +/- Short-term bank loans
- +/- Long-term bank loans
- -Capital element of finance lease payments
- +/- Capital contributions

Indirect format of CF statement

- Under indirect format, net profit or loss is modified to remove all non-cash operations from the P&L statement and add all cash operations that were not included in the P&L.

Indirect format of CF statement

Cash from operating activities:

- +Net profit (loss)
- +Depreciation[1] of fixed assets and amortisation[2] of intangible assets
- +D provisions + D provisions for receivables
- +D short term operating liabilities (non-interest bearing, payables) and long-term trade accounts payable (Change in creditors)
- +D accruals
- –D long term receivables–D short term receivables – D provisions for receivables (Change in debtors)
- –D inventories (Change in stocks)
- –Interest income
- +Interest expense
- -Profit (+loss) on sale of fixed assets (profit or loss on sale of fixed assets)
- – Exchange gains (+ losses)

Cash from investing activities:

\- / + Purchase / Sale of Fixed Assets

Cash from financing activities:

- Emission / repurchase of capital
- Incurrence / repayment of debt
- **Net cash flow from financing activities**

CF statement example

https://forms.office.com/e/LEZdk67JG3

Indirect CF – second explanation

- Assets = Liabilities + Equity
- Change of Assets = Change of Liabilities + Change of Equity

To make notification easier, we will denote "change" as D:

- D Assets = D Liabilities + D Equity

Cash account (at hand and on the bank account) belongs to the assets, but we will separate this account from the remaining assets:

- D Cash + D (Assets without cash) = D Equity + D Liabilities

Therefore....

- D Cash = D Equity + D Liabilities - D (Assets without cash)

Indirect CF – second explanation

- On the left side of equation we have got a balance sheet change of cash, which we want to explain with the changes of all other “corresponding” balance sheet accounts.
- In order to do so, we will divide liabilities, equity and assets into smaller units, representing subheadings from the balance sheet.

Indirect CF – second explanation

- D cash = D primary capital + D reserves + D undivided profits + net profit of the current year + D provisions + D long term liabilities + D short term bank credits and loans + D short term operating liabilities (non-interest bearing) + D accruals – D intangible assets – D tangible assets – D long term receivables – D long term investments – D inventories – D short term receivables – D short term investments (without cash)

Indirect CF – second explanation

- Now, assume that net profit of a current year can remain undivided or:
- Be paid as dividend
- Be paid as bonuses
- Be retained in the form of the increase of reserves
- Therefore,
- net profit (loss) = D reserves + Dividend + Bonuses + D undivided profits
- So...
- D reserves + D undivided profits = net profit (loss) – Bonuses – Dividend

Indirect CF – second explanation

- D cash = D primary capital + net profit (loss) of the current year – Bonuses – Dividend + D provisions + D long term liabilities + D short term bank credits and loans + D short term operating liabilities (non-interest bearing) + D accruals – D intangible assets – D tangible assets – D long term receivables – D long term investments – D inventories – D short term receivables – D short term investments (without cash)

Indirect CF – second explanation

- D cash = D primary capital + net profit (loss) – Bonuses – Dividend + D provisions + D long term liabilities + D short term bank credits and loans + D short term operating liabilities (non-interest bearing) + D prepaid expenses – D intangible assets – D tangible assets – D long term receivables – D long term investments – D inventories – D short term receivables – D short term investments (without cash)
- + depreciation of fixed assets (and amortisation of intangibles) – depreciation of fixed assets (and amortisation of intangibles) + interest income –interest income + interest expense – interest expense + profit (loss) on sale of fixed assets – profit (loss) on sale of fixed assets + exchange gains (losses) – exchange gains (losses) + D provisions for receivables – D provisions for receivables

Indirect CF

- Cash flow indirect method

Cash from operating activities:

- +Net profit (loss)
- +Depreciation[1] of fixed assets and amortisation[2] of intangible assets
- +D provisions + D provisions for receivables
- +D short term operating liabilities (non-interest bearing, payables) and long-term trade accounts payable (Change in creditors)
- +D accruals
- –D long term receivables–D short term receivables – D provisions for receivables (Change in debtors)
- –D inventories (Change in stocks)
- –Interest income
- +Interest expense
- -Profit (+loss) on sale of fixed assets (profit or loss on sale of fixed assets)
- – Exchange gains (+ losses)

Cash from investing activities:

- –D intangible assets –D tangible assets – Depreciation of fixed assets +Profit (- loss) on sale of fixed assets
- –D long term investments
- –D short term investments (without cash)
- +Interest income
- + Exchange gains (- losses) on investment activities

Cash from financing activities:

- +D primary capital
- -Bonuses
- -Dividend
- +D long term liabilities
- +D short term bank credits and loans
- –Interest expense
- + Exchange gains (- losses) on financial activities

Preparation of the CF statement

- Unlike the other major financial statements, the statement of cash flows is not prepared from the adjusted trial balance. The information to prepare this statement usually comes from three sources:
- Comparative balance sheets provide the amount of the changes in assets, liabilities and equities from the beginning to the end of the period.
- Current income statement data help the reader determine the amount of cash provided or used by operations during the period.
- Selected transaction data from the general ledger provide additional detailed information needed to determine how cash was provided or used during the period.

Preparation of the CF statement

- Preparing the statement of cash flows from the data sources above involves three major steps:
- Determine the change in cash. This procedure is straightforward because the difference between the beginning and the ending cash balance can be easily computed from an examination of the comparative balance sheets.
- Determine the net cash flow from operating activities. This procedure is complex; it involves analysing not only the current year's income statement, but also comparative balance sheets as well as selected transaction data.
- Determine cash flows from investing and financing activities. All other changes in the balance sheet accounts must be analysed to determine their effect on cash.

Exercise 3

- Comparative balance sheets of the Madden Corporation along with an income statement and additional information for the years ended December 31 2002 and 2003 are presented below. On the basis of the information presented prepare a statement of cash flows using the (a) indirect method and (b) direct method.

Balance sheet (exercise 3)

Assets	2002	2003
Building	60 000	65 000
Accumulated depreciation	-12 000	-16 000
Inventory	40 000	50 000
Accounts receivable	20 000	33 000
Cash	10 000	15 000
Total assets	118 000	147 000
Equity and Liabilities	**2002**	**2003**
Common stock	80 000	100 000
Retained earnings	18 000	22 000
Accounts payable[1]	20 000	25 000
Total equity and liabilities	118 000	147 000

[1] Accounts Payable is the money that the company currently owes to its suppliers, its partners and its employees. Basically, these are the basic costs of doing business that a company, for whatever reason, has not paid off yet. One company's accounts payable is another company's accounts receivable, which is why both terms are similarly structured. A company has the power to push out some of its accounts payable, which often produces a short-term increase in earnings and current assets.

Profit and loss statement 2003 (e3)

Sales	100 000
Cost of sales	65 000
Depreciation	4 000
Other operating expenses	17 000
Net income	14 000

Additional Information:

a. Net income and a cash dividend account for the change in retained earnings.
b. Common stock was issued for cash during 2003.
c. Other operating expenses were paid in cash

Cash flows from operating activities	
Net income	
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense	
Increase in receivables	
Increase in inventory	
Increase in payables	
Net cash provided by operating activities	
Cash flows from investing activities	
Purchase of building	
Net cash provided by investing activities	
Cash flows from financing activities	
Sale of common stock	
Payment of dividends	
Net cash provided by financing activities	
Net increase in cash	
Cash January 1 2003	
Cash December 31 2003	

Cash flows from operating activities	
Cash received from customers (a)	
Cash paid to suppliers (b)	
Other expenses	
Net cash provided by operating activities	
Cash flows from investing activities	
Purchase of building	
Net cash provided by investing activities	
Cash flows from investing activities	
Sale of common stock	
Payment of dividends	
Net cash provided by financing activities	
Net increase in cash	
Cash January 1, 2003	
Cash December 31, 2003	

Task 1 Cash flow

Please explain all the numbers in the solution presented in next slides

Cash flows from operating activities	
Net income	14 000
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense	4 000
Increase in receivables	-13 000
Increase in inventory	-10 000
Increase in payables	5 000
Net cash provided by operating activities	**0**
Cash flows from investing activities	
Purchase of building	-5 000
Net cash provided by investing activities	**-5 000**
Cash flows from financing activities	
Sale of common stock	20 000
Payment of dividends	-10 000
Net cash provided by financing activities	**10 000**
Net increase in cash	5 000
Cash January 1 2003	10 000
Cash December 31 2003	15 000

Cash flows from operating activities	
Cash received from customers (a)	87 000
Cash paid to suppliers (b)	-70 000
Other expenses	-17 000
Net cash provided by operating activities	**0**
Cash flows from investing activities	
Purchase of building	-5 000
Net cash provided by investing activities	**-5 000**
Cash flows from investing activities	
Sale of common stock	20 000
Payment of dividends	-10 000
Net cash provided by financing activities	**10 000**
Net increase in cash	5 000
Cash January 1, 2003	10 000
Cash December 31, 2003	15 000

a) 100 000-13 000 = 87 000

b) 65 000 + 10 000 - 5 000 = 70 000

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' EQUITY, FUNDS FLOW STATEMENT (Zestawienie zmian w kapitale własnym)

STATEMENT OF CHANGES IN EQUITY

I. Operations that changed the shareholders equity during the year

II. Operations that changed the supplementary during the year

III. Operations that changed the other reserve funds during the year

IV. Operations that changed the revaluation capital reserve during the year

V. Sources of accumulated loss or profit

VI. Net financial result

STATEMENT OF CHANGES IN EQUITY

Change of the shareholders equity:

- Issue of shares (nominal value x number of shares)
- redemption of shares (PL: umorzenie akcji)

Change the supplementary capital:

- Issue of shares (excess of issue value over nominal value x number of shares)
- Transfer of net profit
- Payment of dividend

Change of the reserve funds:

- Transfer of net profit
- Payment of dividend
- Costs of employee incentive programme

STATEMENT OF CHANGES IN EQUITY

Change of the revaluation reserve:
- Revaluation of fixed assets (IFRS)
- Sale of fixed assets revalued in 1995 (PL)

Changes of retained earnings (accumulated loss or profit):
- Transfer of accumulated profit,
- Payment of dividends,
- Coverage of accumulated loss,
- Correction of errors

STATEMENT OF CHANGES IN EQUITY

IFRS Example

Please watch the following video (part of the lecture)

https://www.youtube.com/watch?v=rkTC0R6UfoQ

Additional information

- Notes to financial statements should provide material data and explanations necessary for the financial statement to be presented in a true and fair manner reflecting property and financial status of the entity and its financial status.

- Please read the article:

https://www.cpdbox.com/notes-to-financial-statements-ifrs/

Additional information

- In particular, notes should comprise:
  - An introduction to financial statements describing the adopted accounting principles, including methods for valuation and preparation of the financial statements
  - Additional information and explanations:
    - To items in the balance sheet, P&L account, the FF statement, and the CF statement for the reporting periods covered by the financial statements,
    - Proposed distribution of profits or coverage of losses,
    - General information on employees and bodies of an undertaking
    - Other information necessary to understand the financial statements

Explanatory notes (examples):

- Sales revenues (by products, by geographical area, by distribution channel),
- Depreciation and amortization and impairment write-downs,
- Changes in property, plant and equipment (by category) or intangible assets,
- Assets under construction,
- Changes in investment properties,
- Changes in inventory write-downs,
- Current and overdue trade receivables,
- Trade payables – maturity analysis or trade payables by currency.

Other examples: check https://www.cdprojekt.com/en/investors/regulatory-announcements/separate-annual-report-for-fy-2024/

Exercise 1b

- On the basis of the information below draw up a balance sheet for Comarch for 2004.
- Intangibles = 1 873
- Tangible fixed assets = 79 680
- Long-term investments = 34 393
- Long-term accruals = 0
- Inventory = 14 185
- Short-term dues = 74 100
- Short-term investments = 24 242
- Short-term investments in affiliated units = 368
- Short-term investments in other units = 2 370
- Cash and other cash assets = 21 504
- Short-term accruals = 23 810
- Initial capital = 6 852
- Supplementary capital = 96 714
- Capital from appraisal updating = 71
- Other reserve capitals = 21 948
- Profit (loss) from previous periods = 1 992
- Net profit (loss) = ?
- Capital from merger settlement = (-7 334)
- Reserves for obligations (provisions for liabilities) = 100
- Long-term obligations (liabilities) = 45 937
- Short-term obligations (liabilities) = 53 735
- Accruals = 23 869

	in PLN thou.
ASSETS	2004
I. Fixed assets	
II. Current assets	
Total assets	

EQUITY AND LIABILITIES	2004
I. Own capital	
II. Obligations and reserves for obligations	
Total liabilities	

Thank you for your attention.