

**PENANG SANGAM HIGH SCHOOL**

**P. O BOX 44, RAKIRAKI**

**LESSON NOTES Week 13**

**SUBJECT: ACCOUNTING**

**YEAR/LEVEL: 12**

**Strand 5: Analysis And Interpretation of Financial Statements**

**Sub-strand 5.1:Analysing Accounting Reports** (Ref: MOE Text Year 12 Accounting pg.134- 151)

**Content Learning Outcome:** Analyse financial reports of a sole proprietor to assess its performance.

Greetings to all my students, this week (week 13) we will continue with the coverage, we have already started with strand 5(Analysis And Interpretation of Financial Statements) in week 12 worksheet. The solutions for activities assigned in previous worksheet will be uploaded on viber group so refer to that and mark your work. Please read through the lesson notes and if there are any queries do contact me in our 12A Viber group.

**Lesson Notes:**

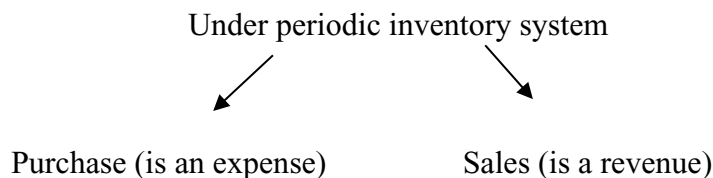
**Effect of Transactions on Working Capital**

Working Capital is calculated as:

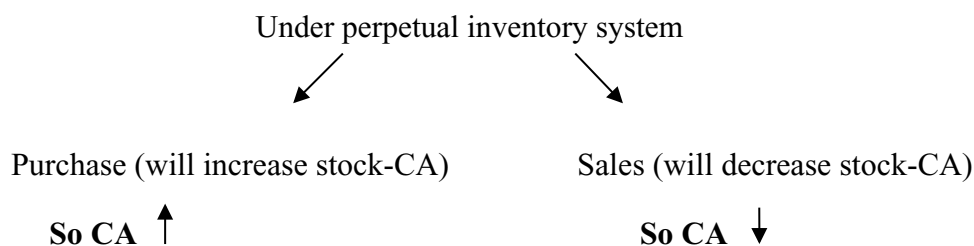
$$\text{WC} = \text{Current assets} - \text{Current Liabilities}$$

So only when current asset or current liability is affected by a transaction than working capital will change or else it will have **no effect**. It is also important to note which method of inventory valuation is used by the business, **periodic or perpetual** as it will have different effects on the accounting equation ( $A + E + D = L + P + R$ ) for given transactions.

**Note:**



HOWEVER:



(If question does not indicate which inventory method is used by the business than always assume they are using **periodic/physical** inventory valuation method).

**Thus to summarize:**

<b>Working Capital (WC)</b>	<b>Current Asset (CA)</b>
	<b>Current Liability (CL)</b>
<b>Working Capital (WC)</b>	<b>Current Asset (CA)</b>
	<b>Current Liability (CL)</b>

**Note:** When working capital increases then decrease by the **same** amount eventually there will be **no effect**.

**Example:**

Ra bookshop provides following transactions for the month of June, 20202:

1. Cash sales \$200.
2. Paid creditors \$300.
3. Credit purchase \$100.
4. Owner took cash for own use \$50.
5. Bought Van for \$10 000 on account.
6. Debtor paid his account \$150 and was allowed \$20 discount.

**Required:**

Using **periodic inventory system** state the effect of each of the given transactions on the working capital of the business.

**Solutions:**

Transaction	Explanation-accounts affected	WC	Final Effect on the WC
1.	Cash – CA ↑	↑	WC will <b>increase</b> by \$200.
	Sales – Rev ↑	No effect	
2.	Creditors- CL ↓	↑	No effect on WC.
	Cash – CA ↓	↓	
3.	Purchase – Exp ↑	No effect	

	Creditors- CL ↑	↓	WC will <b>decrease</b> by \$100.
4.	Drawings- P ↓	No effect	WC will <b>decrease</b> by \$50.
	Cash- CA ↓	↓	
5.	Van - FA ↑	No effect	WC will <b>decrease</b> by \$10 000.
	Creditor- CL ↑	↓	
6.	Cash- CA ↑	↑ By \$150	WC will <b>decrease</b> by \$20. (170 -150)
	Discount Allowed- Exp ↑	No effect	
	Debtor- CA ↓	↓ By \$170	

(**Note:** WC only changes when current asset or current liability changes, other elements such as expense, revenue, fixed assets, proprietorship, etc. Has no impact on WC).

**Class Activity (Teachers own activity):**

Ra supermarket provides the following transactions for the month of May, 2020:

1. Paid rent \$500.
2. Owner took goods for own use \$100.
3. Credit Sales \$400.
4. Cash purchase \$600.
5. Paid Creditors \$300 and received \$50 discount.

**Required:**

Using **periodic inventory system** state the effect of each of the given transactions on the working capital of the business.

(Solutions of the above activity will be provided later for reference and marking, please attempt the activities using the lesson notes and example provided)

**(Best wishes for week 13 studies, take care and Stay Safe)**

