**Workshop on Financial Accounts**

**14-16 November Brussels, Belgium**

**Session 2 Conceptual issues**

**SOLUTION Financial Accounts exercise**

**Nice’n’Dry SA**, a manufacturer of baby nappies, starts the year with the following financial balance sheet.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Assets** | **Liabilities** |
| F.2 | Currency and deposits | 100,000 |  |
| F.3 | Debt securities |  | 40,000 |
| F.4 | Loans |  | 60,000 |
| F.5 | Equity |  | 20,000 |
| F.8 | Other accounts receivable / payable | 40,000 | 10,000 |
| BF.90 | Financial net worth |  | 10,000 |

During the year, the following events are noted:

**1.** Purchases of materials and supplies for cash of EUR 50,000 and wage payments of EUR 50,000 in cash to employees.

**2.** Purchases of materials and supplies on trade credit for EUR 20,000.

**3.** Sales of nappies for EUR 140,000 in cash.

**4.** Repayment of EUR 10,000 of the outstanding loan.

**5.** Receipt of a cash payment of EUR 10,000 from a supermarket which took delivery of some nappies last year.

**6.** Issue and sale for cash of 3000 new shares in the company at EUR 1 each.

**7.** Redemption at maturity of all existing corporate bonds for cash.

**8.** Write-off of EUR 10,000 of trade credits owed by a customer, due to its bankruptcy.

**9.** An agreement with the bank to defer a cash payment of loan interest of EUR 5000 due this year until next year.

**10.** Revaluation of existing shares.

The **closing financial balance sheet** for the year is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Assets** | **Liabilities** |
| F.2 | Currency and deposits | 103,000 |  |
| F.3 | Debt securities |  | 0 |
| F.4 | Loans |  | 55,000 |
| F.5 | Equity |  | 15,000 |
| F.8 | Other accounts receivable / payable | 20,000 | 30,000 |
| BF.90 | Financial net worth |  | 23,000 |

Please compile (using the templates on the next page):

* The financial (transactions) account.
* The other changes in volume account.
* The revaluation account.

**Financial (transactions) account**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Change in assets** | **Change in liabilities** |
| F.2 | Currency and deposits | - 50,000 (1)  - 50,000 (1)  +140,000 (3)  - 10,000 (4)  +10,000 (5)  + 3,000 (6)  – 40,000 (7)  = +3,000 |  |
| F.3 | Debt securities |  | -40,000 (7) |
| F.4 | Loans |  | -10,000 (4)  + 5,000 (9)  = -5,000 |
| F.5 | Equity |  | + 3,000 (6) |
| F.8 | Other accounts receivable / payable | -10,000 (5) | +20,000 (2) |
| B9.F | Net lending (+) / Net borrowing (-) |  | +15,000 |

Note that the deferred interest payment is by convention added to loans rather than Other account payable.

**Other changes in volume account**

*This entry is for writing off the bad debt (this is not a transaction).*

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Change in assets** | **Change in liabilities** |
| F.2 | Currency and deposits |  |  |
| F.3 | Debt securities |  |  |
| F.4 | Loans |  |  |
| F.5 | Equity |  |  |
| F.8 | Other accounts receivable / payable | -10,000 (8) |  |

**Revaluation account**

Calculated here as the residual change from the opening to closing balance sheet entries, but in practice one should try to find "independent" revaluation data.

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Change in assets** | **Change in liabilities** |
| F.2 | Currency and deposits |  |  |
| F.3 | Debt securities |  |  |
| F.4 | Loans |  |  |
| F.5 | Equity |  | -8,000 (10) |
| F.8 | Other accounts receivable / payable |  |  |

B9F is +15,000 (Change in liabilities side)

B9 is determined by the non-financial transactions:

**1.** Purchases of materials and supplies for cash of EUR 50,000 and wage payments of EUR 50,000 in cash to employees.

**2.** Purchases of materials and supplies on trade credit for EUR 20,000.

**3.** Sales of nappies for EUR 140,000 in cash.

**9.** An agreement with the bank to defer a cash payment of loan interest of EUR 5000 due this year until next year.

B9 = 140,000 -50,000-50,000-20,000-5,000 = 15,000 (Change in assets side)