

# IAS 1 PRESENTATION OF FINANCIAL STATEMENTS

IAS 1 covers the form and content of financial statements. The main components are:

- ✦ Statement of financial position
- ✦ Statement of profit or loss and other comprehensive income
- ✦ Statement of changes in equity
- ✦ Statement of cash flows
- ✦ Notes to the financial statements

## 1. Statement of profit or loss and other comprehensive income (Income statement)

Reports on the incomes, expenses and profits over a specified period of time

It shows the financial performance of an entity over a specified period of time

### FORMAT OF THE STATEMENT OF FINANCIAL PERFORMANCE

#### Title XXX

Sales / Revenue		xxx
<i>Less:</i> Return inwards		<u>(xxx)</u>
Net sales		<b>xxx</b>
<b><u>Less: Cost of sales</u></b>		
Opening inventory / stock	xxx	
<i>Add:</i> Purchases	xxx	
<i>Add:</i> Carriage inwards	<u>xxx</u>	
<i>Less:</i> Return outwards	(xxx)	<u>xxx</u>
Cost of goods available for sale		<b>xxx</b>
<i>Less:</i> Closing inventory / stock		<u>(xxx)</u>
Cost of goods sold		<b><u>(xxx)</u></b>
<b><i>Gross profit</i></b>		<b>PPP</b>
<b><u>Add: Other Incomes</u></b>		
Discount received	xxx	
Rent income	xxx	
Interest received	xxx	
Reduction in provision for bad debts etc.	xxx	<u>xxx</u>
<b><i>Gross income</i></b>		<b>xxx</b>
<b><u>Less: Operating expenses</u></b>		
Salaries and wages	xxx	
Insurance premium	xxx	
Depreciation expenses etc	xxx	
Rent	xxx	
Discount Allowed	xxx	
Increase in Provision for Bad debts	xxx	
Office Expense	xxx	<b><u>(xxx)</u></b>
<b><i>Profit for the Year</i></b>		<b>PPPP</b>

## 2. Statement of financial position (Balance sheet)

Reports on the entity's assets, liabilities and ownership equity as at a given period of time.

### FORMAT OF THE STATEMENT OF FINANCIAL PERFORMANCE

#### Title XXX

<b>Details</b>	<b>Cost</b>	<b>Acc. Depreciation</b>	<b>NBV</b>
<b>Non – Current Assets.</b>			
Land	xxx	--	xxx
Buildings	xxx	(xx + xx)	xxx
Fixtures and Fittings	xxx	(xx + xx)	xxx
Plant & Machinery	xxx	(xx + xx)	xxx
<b>Total Non-Current Assets</b>			<b>XXX</b>
<b>Current Assets.</b>			
Closing Stock		xxx	
Cash at hand		xxx	
Cash at Bank		xxx	
Trade Receivables / Debtors		xxx	
Prepaid Expenses		xxx	
Accrued Incomes		<u>xxx</u>	<u>XXX</u>
<b>Total Assets</b>			<b>XXXX</b>
<b>Equity &amp; Liabilities.</b>			
<b>Equity</b>			
Share Capital		xxx	
Share Premium		xxx	
Retained Earnings		xxx	
Less: Drawings		(xxx)	
Profit / Loss for the year		xxx / (xxx)	
<b>Total Equity</b>			<b>XXX</b>
<b>Non – Current Liabilities.</b>			
Long term Loans		xxx	
Bonds		xxx	
Debentures		xxx	<u>XXX</u>
<b>Current Liabilities</b>			
Short term loans		xxx	
Trade Payables / Creditors		xxx	
Prepaid Incomes		xxx	
Accrued Expenses		xxx	<u>XXX</u>
<b>Total Equity and Liabilities</b>			<b>XXXX</b>

**Example 1.**

The book keeper of EGOC Ltd prepared the following trial balance on 31<sup>st</sup> December 2022.

<b>Particulars</b>	<b>DR</b>	<b>CR</b>
	<b>UGX.000</b>	<b>UGX.000</b>
Capital		150,000
Drawings	17,600	
Purchases and sales	100,000	163,900
Discount Allowed & Discount Received	3,300	5,200
Stock (1 <sup>st</sup> Jan 2022)	11,500	
Wages	8,500	
Equipment	72,000	
Freight & Carriage inwards	21,000	
Bad debt expenses	2,000	
Advertisement	2,800	
Interest Received		3,800
Insurance	1,300	
Receivables & Payables	65,000	12,000
Return Inwards & Return Outwards	15,000	7,000
Cash at Bank	12,000	
Cash at Hand	1,900	
Transport	8,000	
	<b>341,900</b>	<b>341,900</b>

**Additional information.**

- i. Stock on December 31, 2022 was valued at ugx. 14,000,000
- ii. Insurance was prepaid to the extent of ugx. 400,000
- iii. Accrued expenses were; wages ugx. 1,000,000
- iv. Depreciate equipment at 20% on straight line basis.

**Required:**

- a) Prepare Journal entries for the end of year adjustments for EGOC ltd.
- b) Prepare EGOC Ltd statement of comprehensive incomes (Income statement) for the period ended December 31, 2022
- c) Prepare EGOC Ltd statement of Financial Position (Balance sheet) as at December 31, 2022

**Example 2.**

The following balances were extracted from the books of ORAC Ltd for the year ended 30<sup>th</sup> June 2022.

<b>Account Titles</b>	<b>Debit (Ugx)</b>	<b>Credit (Ugx)</b>
Ordinary Share Capital		7,000,000
Longterm Bank Loan		3,000,000
Cash and Bank Balance	7,000,000	4,000,000

Revenue		9,502,000
Purchases	2,000,000	
Carriage Inwards	930,000	
Machinery at Cost	9,000,000	
Plant & Equipment at cost	2,000,000	
Accumulated Depreciation. – Plant & Equipment		1,000,000
Utilities	5,000,000	
Discount Allowed & Received	450,000	3,000
Return Inwards & Outwards	5,000	1,000,000
Legal Audit Fee	200,000	
Trade Receivables	300,000	
Trade Payables		1,500,000
Inventory on 1.07.2021	120,000	
<b>TOTAL</b>	<b>27,005,000</b>	<b>27,005,000</b>

**Additional Information.**

1. Inventory on 30<sup>th</sup> June 2022 was valued at ugx. 500,000
2. Depreciation is charged at a rate of 5% on Plant & Equipment using reducing balance and 2% for Machinery on cost.
3. Legal and Audit fees worth Ugx. 50,000 were outstanding by the year.
4. Utilities of Ugx. 200,000 included in the trial balance were prepaid.

**Required.**

- a) Prepare Journal entries to record the additional information
- b) Prepare a statement of Comprehensive income for ORAC Ltd for the year ended 30/06/2022
- c) Prepare ORAC Ltd Statement of Financial Position as at 30/06/2022.

**Example 3.**

Malcom, a limited liability company, has an accounting year end of 31 October. The accountant is preparing the financial statements as at 31 October 2025 and requires your assistance. The following trial balance has been extracted from the general ledger.

<i>Account</i>	<i>Dr.</i> Ugx 000,000	<i>Cr.</i> Ugx 000,000
Buildings at Cost	740	
Buildings Acc. Depreciation, 1 Nov 2024		60
Plant at Cost	220	
Plant Acc. Depreciation, 1 Nov 2024		110
Bank Balance		70
Revenue		1,800
Net Purchases	1,140	
Inventory at 1 <sup>st</sup> Nov 2024	160	
Cash	20	
Trade Payables		250
Trade Receivables	320	

Administrative Expenses	325	
Allowance for Receivables as at 1 Nov 2024		10
Retained Earnings at 1 Nov 2024		130
Equity Shares, Ugx 1		415
Share Premium Account		80
	<b>2,925</b>	<b>2,925</b>

**The following additional information is also available.**

- ✦ The allowance for receivables is to be increased to 5% of trade receivables. The allowance for receivables is treated as an administrative expense.
- ✦ Plant is depreciated at 20% per annum using the reducing balance method and buildings are depreciated at 5% per annum on their original cost. Depreciation is treated as a cost of sales expense.
- ✦ Closing inventory has been counted and is valued at a cost of Ugx 75,000,000 and a net realizable value of Ugx. 80,000,000.
- ✦ An invoice of Ugx15,000,000 for energy costs relating to the quarter ended 30 November 2025 was received on 2<sup>nd</sup> December 2017. Energy costs are included in administrative expenses.

**Required.**

- a) Prepare the statement of Profit or Loss and
- b) The statement of financial position of Malcom Co. as at 31 October 2025.

**Example 4.**

The following trial balance was extracted from the books of RC Enterprises Ltd for the year ended 31<sup>st</sup> December 2021.

<b>Account Title</b>	<b>Debit Shs “000”</b>	<b>Credit shs “000”</b>
Land and Buildings	705,000	
Machinery & Equipment	462,000	
Furniture & Fittings	48,000	
Motor Vehicles	102,000	
Accounts Receivable and Payables	22,000	68,000
Purchases and Sales	571,000	876,000
Ordinary Share Capital @ 1,000		1,000,000
Accumulated Profit or Loss	34,700	
18% 5 – year Bank Loan		200,000
Provision for doubtful debts		4,700
General Expenses	141,000	
Bank	16,000	
Cash	4,500	
Salaries and Wages	235,000	
Inventory 01.01.2021	97,645	
Accumulated Depreciation on;		
Buildings		46,500
Machinery & Equipment		202,125
Furniture & Fittings		4,800

Motor Vehicles		36,720
	<b><u>2,438,845</u></b>	<b><u>2,438,845</u></b>

**Additional Information.**

1. Closing inventory was shs. 62,600,000 at cost.
2. Trade receivables of 1,200,000 which were written off have been recovered
3. The Company's depreciation policy is as below;

<i>Non-Current Assets</i>	<i>Rate Per annum</i>	<i>Method of Depreciation.</i>
Buildings	5%	Straight line method
Machinery and Equipments	25%	Reducing balance
Furniture & Fittings	5%	Straight line Method
Motor Vehicles	20%	Reducing Balance

The land cost shs. 240 Millions

**Required.**

- a) Prepare Journal entries to record the additional information
- b) Prepare a statement of Comprehensive income for RC Enterprises Ltd for the year ended 31/12/2021
- c) Prepare RC Enterprises Ltd Statement of Financial Position as at 31/12/2021.

**Example 4.**

The following trial balance was extracted from the ledger of Bethel Ltd for the financial year ended 30/06/2020

<b>Account Titles</b>	<b>DR. Shs. "000"</b>	<b>CR. shs. "000"</b>
Ordinary share Capital		100,000
Share Premium		10,000
Land (cost)	150,000	
Motor Vehicle ( cost)	60,000	
Trade Debtors & Creditors	30,000	20,000
Cash Balance	25,000	
Bank Balance		5,400
Inventory 1.07.2019	6,500	
General Expenses	18,000	
Sales		250,000
Return Inwards & Outwards	5,000	10,000
Bad Debts	2,500	
Purchases	120,000	
Discounts	1,500	4,500
Transport Out	7,000	
Salaries	25,000	
Insurance	2,400	
Accumulated Depreciation on M/V 01.07.2019		20,000
Provision for Bad debts		5,000
5 year ABSA Loan		10,000
Retained Earnings 01/07/2019		18,000

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**452,900**

**452,900**

**Additional Information.**

- Stock at 30/06/2020 was valued at shs. 10,000,000
- Depreciation on Motor vehicles is at a rate of 20% on reducing balance method
- The provision for bad debts is to be reduced to shs. 4,000,000
- Included in the general expenses is an amount of 3,000,000 spent on settling the Director's private bill
- Loan interest for the year accrued. The interest rate on the loan is 10% p.a.

**Required.**

- a) Prepare Journal entries to record the additional information
- b) Prepare a statement of Comprehensive income for Bethel Ltd for the year ended 30/06/2020
- c) Prepare Bethel Ltd Statement of Financial Position as at 30/06/2020.

**Example 5.**

The following Trial Balance extracted from the ledger accounts of Acer Ltd for the final year ended 31/12/2010.

<b>Account title</b>	<b>Debit (Shs)</b>	<b>Credit (Shs)</b>
Ordinary shares		200,000,000
Preference shares		100,000,000
Plant and machinery, cost	200,000,000	
Motor vehicle, cost	160,000,000	
Land	140,000,000	
Accumulated Depn. (1/1/2010)		
Plant and machinery		60,000,000
Motor vehicle		32,000,000
Trade debtors and Creditors	60,000,000	30,000,000
Cash	10,000,000	
Bank	70,000,000	
Stock on 1/1/2010	9,200,000	
General expenses	20,000,000	
Advertising expenses	4,000,000	
Sales		600,000,000
Returns	8,000,000	6,000,000
Bad debt expenses	5,000,000	
Purchases	320,000,000	
Discounts	1,000,000	3,000,000
Carriage inwards	5,000,000	
Salaries expenses	20,000,000	
Fuel expenses	4,000,000	

Insurance expenses	800,000	
Provision for bad debts		6,000,000
<b>Totals</b>	<b>1,037,000,000</b>	<b>1,037,000,000</b>

### Additional information

- Stock at 31/12/2010 was valued at Shs 16,000,000= on FIFO basis
- Depreciation on plant and machinery and motor vehicle is at 15% and 10% per annum respectively.
- The provision for bad debts is to be increased to Shs 9,000,000=
- ¼ of insurance paid relates to the financial year commencing on 1/1/2011
- Included among the general expense is tuition fees and pocket money amounting to Shs 2,000,000= of the Directors niece, who is not an employee of Acer Ltd
- Fuel expenses of Shs 3,000,000= remained outstanding at the end of the year

### Required

- Prepare journal entries from a) to f)
- Prepare the final accounts for the company for the year ended 2010 (Statement of comprehensive income, Statement of changes in equity and statement of financial position).

## PREPARING ACCOUNTS FOR MANUFACTURING FIRMS.

Manufacturing firms are involved in converting raw materials into finished goods. Unlike trading businesses that simply buy and sell goods, manufacturers incur various production costs such as raw materials, labour, and factory overheads. A manufacturing account is therefore prepared to systematically accumulate and present these costs.

The main objective of a manufacturing account is to compute the total manufacturing cost or cost of goods produced.

### Key Terms.

#### Prime / Direct Costs.

Prime costs also called direct costs are costs that can be directly and easily traced to the production of specific goods.

They are the core production costs and form the foundation of the manufacturing process.

#### Components of Prime Cost

- **Direct materials**

Direct materials are the raw inputs incorporated into finished products, identifiable and traceable to each unit produced. Examples include timber in furniture and flour in bread. Their cost is calculated by adjusting opening stock with purchases and closing stock. Direct materials significantly contribute to prime cost and are essential for cost control, pricing decisions, and profitability analysis.

- **Direct labour**

Direct labour encompasses the wages and related expenses of employees directly involved in the production process, such as machine operators and assembly line workers. Their contributions can be traced to specific outputs, allowing direct labour costs to be charged directly to production. This is significant in manufacturing accounts, as it forms a primary component of prime cost and is essential for evaluating productivity, controlling efficiency, and calculating overall production costs.

- **Direct expenses**

Direct expenses are costs specifically traceable to a product, job, or production process, excluding direct materials and labor. These expenses, incurred for unique production needs, are charged directly to the respective product without allocation. Examples include royalties per unit, fees for specialized designs, and rental of equipment for specific jobs. As direct expenses are identifiable with a single cost unit, they contribute to prime cost and are crucial for accurate product costing, particularly in customized or contract-based manufacturing.

$$\text{Prime Cost} = \text{Direct Materials} + \text{Direct Labour} + \text{Direct Expenses}$$

### **Overheads / Indirect Costs.**

Overheads (indirect costs) are costs that support production and operations but cannot be directly traced to a specific unit of output. Unlike direct costs, they benefit the entire production process rather than one particular product. Because of this, overheads are collected and then allocated or apportioned to different products using appropriate bases such as labour hours or machine hours.

These costs are essential for the smooth running of the business.

For example, **Indirect Materials** like lubricants and cleaning supplies help maintain machinery but do not form part of the final product.

**Indirect labour**, such as factory supervisors and security personnel, supports production without being directly involved in making the product.

Similarly, other **indirect expenses** like factory rent, electricity, and depreciation of machinery provide the necessary production environment.

### **Overheads are usually classified into three main types.**

- ✦ Factory (production) overheads relate directly to manufacturing activities and occur within the factory.
- ✦ Administrative overheads are incurred in managing and running the organization, such as office salaries and stationery.
- ✦ Selling and distribution overheads arise when marketing, selling, and delivering the product, including advertising and transport costs.

### **Manufacturing Cost Statement / Manufacturing Account.**

The Manufacturing Cost Statement, also known as the Manufacturing Account, is a financial statement prepared by manufacturing firms to determine the total cost of producing goods during a specific accounting period. Its main purpose is to calculate the cost of goods manufactured, which is then transferred to the trading account for the determination of gross profit.

**Format of Manufacturing Account/ Cost Statement.**

Details	Title	XXX	Shs	Shs
<b>Prime Cost.</b>				
Opening Stock of Raw Materials			xxx	
Add: Purchase of Raw Materials			xxx	
Add: Carriage Inwards			xxx	
Less: Returns Outwards/Purchase Returns			(xxx)	
Less: Closing Stock of Raw Materials			(xxx)	
<b>Cost of Raw Materials Consumed</b>			<b>XXX</b>	
Add: Direct Wages / Labor			xxx	
Add: Direct Expenses			xxx	
<b>Prime Costs</b>				<b>PPP</b>
Add: Factory Overheads				
Rent			xxx	
Insurance			xxx	
Depreciation			xxx	
Electricity			xxx	
<b>Total Factory Overheads</b>				<b>FFF</b>
Add: Opening Work In Progress (WIP)			xxx	
Less: Closing Work in Progress (WIP)			(xxx)	
<b>Cost of Goods Fully Manufactured / Production Cost</b>				<b>XXXX</b>

**Proforma of Trading, Profit or Loss Account of a Manufacturing Firm.**

Title xxx

Details	Shs	shs	Shs
Sales/Revenue			Xxx
Less: Cost of Goods Sold:			
Opening Stock of Finished Goods			xxx
Add: Cost of goods completed (fully manufactured)			xxx
Less: Closing Stock of Finished goods			(xxx)

<b>Cost of Goods Sold</b>			<b>(xxx)</b>
Gross Profit			<b>XXX</b>
<b>Less: Expenses.</b>			
<b>Office and Administration Expenses:</b>			
Office Salaries	xxx		
Postage and Stationery	xxx	xxx	
<b>Selling and Distribution Expenses</b>			
Advertising	xxx		
Sales commission	xxx		
Carriage out wards	xxx	xxx	
<b>Financial charges</b>			
Bank Charges	xxx		
Interest on loans	xxx	xxx	
<b>Total Expenses</b>			<b>(XXX)</b>
<b>Net Profit / Loss</b>			<b>XXX/(XXX)</b>

### Example 1

Roof clad Ltd Manufactures Iron Sheets and sells them to the final users. The following balances were extracted from its ledger on 31/12/2023

	(UGX.000)
Sales	1,200,000
Purchases of raw materials	50,000
Wages of crane Drivers	45,000
Factory direct wages	40,000
Manufacturing expenses	15,000
General expenses	21,000
Promotion expenses	20,000
Discount allowed	3,000
Discount received (on raw material purchases)	2,000
Salesmen commission	14,000
Head office salaries	15,000
Carriage outwards	13,000
Electricity-Factory	14,000
-Office	17,000
Ground rent (factory)	3,000
Bad debts expense	4,000
Insurance	
-Office buildings	6,000
- Factory premises	3,000
Depreciation	
-Office buildings	1,000
-Factory machines	7,000
Legal fees	1,000

The Stock taking exercise revealed the following balances

*Emuron Peter Elvis*

Stock at cost	1/1/2023	31/12/2023
	(UGX 000)	(UGX 000)
Raw-materials	8,000	7,000
Work-in-progress	4,000	3,000
Finished goods	9,000	8,000

**Required:**

Prepare the company's Manufacturing account, Trading and Profit Loss account for the year ended 31/12/2023.

**Example 2.**

Toyoda is a manufacturer of motor vehicles. The trial balance of the past financial year is shown below;

<b>Trial Balance as at 31<sup>st</sup> December 2024.</b>	<b>Ugx 000</b>	<b>Ugx 000</b>
Purchase of raw materials	250,000	
Direct Labour	150,000	
Stocks at 1 <sup>st</sup> January 2024:		
Raw materials	65,000	
Work in Progress	52,500	
Finished Goods	48,000	
Indirect Labour	16,000	
Factory Maintenance Costs	16,700	
Machine Repairs	31,500	
Sales		788,100
Other Factory Overheads	24,500	
Heating and Lighting	19,000	
Factory Rates	11,500	
Administration Expenses	42,000	
Selling Costs	46,800	
Trade Receivables and Payables	49,900	22,000
Freight of Raw Materials	1,600	
Bank Balance	45,000	
Factory	180,000	
Motor Vehicles	20,000	
Accumulated Depreciation of Motor Vehicles		9,900
Capital		250,000
	<b><u>1,070,000</u></b>	<b><u>1,070,000</u></b>

**Additional Information.**

a) The Stocks as at 31<sup>st</sup> December 2025 consist of;

- |                     |                 |
|---------------------|-----------------|
| a. Raw Materials    | Ugx. 51,400,000 |
| b. Work in Progress | Ugx. 42,600,000 |
| c. Finished Goods   | Ugx. 63,000,000 |

b) One Quarter of the administration expenses are allocated to the factory.

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- c) Heating and lighting should be apportioned between the factory and office on the basis of the floor area occupied, which is factory 1,000m<sup>2</sup> and office 600m<sup>2</sup>.
- d) Expenses in arrears as at 31<sup>st</sup> December 2025 are;
- a. Direct Labor Ugx. 2,500,000
  - b. Other factory Overheads Ugx. 700,000
  - c. Selling Costs Ugx. 1,500,000
- e) Motor Vehicles are depreciated at the rate of 20% using the reducing balance method.

**Required.**

For the year ended 31<sup>st</sup> December 2024, Prepare for Toyoda;

- i. The manufacturing Account
- ii. The statement of Profit or Loss Account
- iii. A Statement of Financial Position.

**Example 3.**

XENO Ltd, a manufacturing firm, has provided the following trial balance for the year ended 31 December, 2024.

Details:	Dr (Shs '000')	Cr (Shs '000')
Land	12,000,000	
Buildings (cost Shs 25,000,000)	16,500,000	
Plant & machinery (cost Shs 12,000,000)	8,500,000	
Retained earnings 1 January, 2024		845,000
Sales revenue		44,200,000
Sale of scrapped materials		654,500
Inventories 1 January, 2024:		
Finished goods	2,350,000	
Raw materials	3,560,000	
Work in progress	875,000	
Purchase of raw materials	12,765,000	
Hire of sealing machine	124,500	
General factory overheads	1,235,000	
Trade receivables & trade payables	2,350,000	1,865,000
Bank	456,750	
Direct factory wages	8,750,560	
10% 5-year bank loan		14,650,000
Discounts	234,500	98,700
Ordinary share capital		16,840,000
Share premium		4,368,610
Marketing expenses	125,000	
Utilities	3,470,000	
Office supplies	48,500	
Salaries and wages	8,750,000	
Suspense account		6,800
Stationery	1,350,000	

Office maintenance and repairs	40,000	
Salesmen commission	43,800	
Total	<u>83,528,610</u>	<u>83,528,610</u>

Additional information:

- Inventories 31 December, 2024:
 

Item	Shs 'million'
Finished goods	1,200
Raw materials	1,450
Work in progress	945
- 30% of the finished goods can be sold at 90% of their cost, while the remaining balance can be sold at 110% of their cost. The other inventory categories comply with the requirements of IAS 2: Inventories. Additionally, raw materials worth Shs 30 million were destroyed by fire and compensation from the insurance company is uncertain.
- The suspense account was created due to the utilities account being overcast.
- Stationery of Shs 10 million was accrued.
- Salaries and wages include salary advances to staff of Shs 8 million.
- XENO Ltd depreciates buildings at 5% per annum on cost, and plant and machinery at 10% per annum on reducing balance.
- The bank loan was acquired on 1 July, 2024 and loan interest is outstanding.
- Tax for the period is estimated to be Shs 700 million.
- Hiring a sealing machine was for a short period of time following the breakdown of the company's machine. The machine was used to seal a number of products.
- XENO Ltd apportions costs as follows:

Cost:	Factory	Selling costs	Administration
Stationery	20%	20%	60%
Salaries and wages	$\frac{3}{4}$	$\frac{1}{8}$	?
Utilities	70%	10%	20%
Depreciation of buildings	50%	20%	30%

**Required:**

Prepare for XENO Ltd, for the year ended 31 December, 2024:

- Manufacturing cost statement
- Statement of profit or loss
- Statement of Financial Position.

