OPINIONS ABOUT THE METHOD OF MAKING MONEY TRANSACTION STATEMENT

by ĐẶNG KIM CƯƠNG

The money transaction statement is a newly regulated statement and it was promulgated recently along with the new system of accounts. So there is a lot of difficulty in making this statement. Studying guidelines of the Ministry of Finance for method of making this statement and many other related documents, I came up with the following opinions:

The money transaction statement made by direct method as guided by the Ministry of Finance forces us to analyse directly the numerical data in cash books relating to each kind of activities and detailing all the related contents. So this method is too complex and time-consuming. Therefore, in this article, I would like to present another method of making the money transaction statement. It's also called the direct method but easy to do and requires only the same documents that we use to make this statement with the indirect method. These documents are the balance sheet (period end and period-beginning numerical data included), the statement on operating result, supplementary documents about tax; fixed assets; profit distribution.

According to this method, the amount of transacted money in operating activities will be calculated in order of entries in the statement of operating result, that is, all statemented sales will be changed into cash receipts; and cost of goods sold, overhead expenses and taxes all will be changed into cash payments. Combining cash receipts and payments, we have got the amount of money transacted from operating activities.

As for the amount of money transacted from investment activities and financial activities, we will do in the same way that the indirect method did, that is, we analyse the difference between numerical data of the beginning and the end of period of related accounts compared with supplementary documents in order to find out payments and receipts of each activity. This method could be generalized by the following charts:

Indicators	Method of calculating
I. Money transaction from operating activities	
a. Net sales	Report data
Reserve returned	<->
Difference of debts receivable:	
increase	<->
decrease	+
Cash receipts in period (1)	xxx
b. Cost of goods sold,	Report data
Difference in inventory:increase decrease	+ <->
Difference payable to supplier:	
increase, decrease	<-> +
Cost in cash of goods sold in period (2)	xxx
c. Operating expenses	Report data
Difference in prepaid expenses:	
increase, decrease	+ <->
Other difference payable:	
increase, decrease	<->, +
Depreciation cost in period	<->
Reserve for falling price of inventory and for bad debts	<->
Cash expenses of operating activities in period (3)	xxx
d. Paid income tax (4)	Sum paid in the period
Net money transaction from operating activities (a)	(1)-(2)-(3)-(4)
II. Money transaction from investment activities	
Buying fixed assets	<->
Receipts from selling fixed assets	+
Interest receivable from shares	+
Profit	+
Net money transaction from investment activities (b)	xxx
III. Money transaction from financial activities	
Loans	+
Increase in capital	+
Paid loans	<->
Paid dividend	<->
Money transaction from financial activities (c)	xxx
IV. Increase (decrease) in money and near money	(a)+(b)+(c)
V. Amount of money and near money at the beginning of period	Openning balance on balance sheet
VI. Amount of money and near money at the end of period.	Closing balance on balance sheet.

Meanings of calculation:

- Returned reserve is taken away from net sales because it is included in sales but in fact, it isn't realized. It's only an accounting operation carried out at the end of period.

- Debts receivable: its increase will be taken away from sales because this increase reflects non-cash part of sales; its decrease will be added to sales because this decrease reflects cash receipts from debts receivable.

- Inventory: its increase will be added to cost of goods sold because it reflects the amount of money that should be spent on buying goods for sale. Its decrease will be taken away from cost of goods sold because this decrease reflects the amount of money spent on buying goods in last period.

- Payments to supplier: its increase will be taken away from cost of goods sold because it reflects buying goods on credit but the money hasn't been paid. Its decrease will be added to cost of goods sold because this decrease reflects the amount of money that will be paid for goods bought on credit.

- Prepaid expenses: Its increase will be added to operating expenses because this increase reflects the paid money that is bigger than the statemented data. Its decrease will be taken away from operating expenses because this decrease reflects the statemented data which was bigger than realized payments.

- Other payments: they have the same meaning as payments to supplier.

- Depreciation cost: it will be taken away from operating expenses because it is a non-cash payment.

- Reserve for falling price of inventory and bad debts: they will be taken away from operating expenses because they are non-cash expenses as depreciation is.

- Buying fixed assets will be taken away because it's a cash payment and it can be worked out from the difference between values of fixed assets at the beginning and the end of period referring to book detailing all fixed assets which is used to record what happens to them.

- Receipts from assets sale, from profit, etc: will be added because they are cash receipts.

- Loans, increase in capital will be added because they are cash receipts.

- Paid loans, paid dividend... will be taken away because they are cash payments.

In order to master the way of making the money transaction statement according to the direct method and the indirect method as guided by the Ministry of Finance, I will present here an example (caution: meaning of direct calculation is different from meaning of indirect calculation).

XYZ COMPANY

BALANCE SHEET ON DEC, 31 199...

Unit: million VNĐ

Assets	Opening balance	Closing balance	Source of capital	Opening balance	Closing balance
A. Current assets	19,000	19.300	A. Loan payable	14,000	20,400
I. Money capital	300	1.100	I. Short-term debts	11,200	12,600
- Cash	40	200	Short-term loans	1,200	600
-Deposit in bank	260	900	Payments to suppliers	8,500	9,500
II. Short-term investment	700	500	Tax and other fee payable to government	1,000	1,500
- Investment in short-term stocks	735	525			
- Reserve for falling price of short-term investment	<35>	<25>	Other payments	500	1,000
III. Debts receivable	8,100	7.200	II. Long-term debts	2,800	7,800
- From customers	8,000	6.800	B. Owner's capital	25,000	29,800
- From others	800	1.000	I. Active capital	25,000	29,800
- Reserve for bad debts	<700>	<600>	Trading capital	11,500	14,000
IV. Advancce and prepaid expenses	600	200	Business development fund	2,000	3,000
- Prepaid expenses	600	200	Undistributed profit	11,000	12,500
V. Inventory	9,300	10,300	Welfare and incentive fund	500	300
Stock in hand	9,750	10,800	II. Fund for operating expenses.		
Reverve for falling price of inventory	<450>	<500>			
VI. Operating expenses					
B. Fixed assets	20,000	30,900			
I. Fixed assets	11,500	23,000			
Tangible assets.	29,500	34,000			
Wear and tear	<18,000>	<11,000>			
II. Long-term investment	8,500	7,900			
Investment in long-term stocks	8,500	7,900			
III. Unfinished capital construction.					
IV. Long-term security money					
Total	39,000	50,200	Total source of capital.	39,000	50,200

XYZ COMPANY

OPERATING RESULT STATEMENT OF 199...

I. Profit and loss statement

Unit: million VNĐ

Indicators	Cumulative sum from year's beginning
I. Sales	
Total sales of goods	48,850
Reserve for falling price of inventory and bad debts returned	1,150
Net proceeds of sale	50,000
II. Cost of goods sold	25,000
III. Gross profit	25,000

IV. Selling expenses and expenses of management	14,400
Depreciation in the period	1,700
Expenses of management	5,600
Selling expenses	7,100
V. Net profit from operating activities	10,600
VI. Result of other activities	
VII. Total profit from all activities	
VIII. Company income tax payable	3,000
IX. After-tax profit	7,600

Supplementary documents
In 199..., XYZ Company sold a machine with original cost of VNĐ 22,500 million for VNĐ 9,500 million.
In this year, the company paid VNĐ 3,300 million to workers from welfare and incentive fund. The company income tax paid in the year was VNĐ 2,500 million.

XYZ COMPANY
199... MONEY TRANSACTION STATEMENT MADE BY THE DIRECT METHOD

Unit: VNĐ million

Indicators	This year	Last year
I. Money transaction from operating activities		
a. Net sales	50,000	
Reserve returned	<1,150>	
Decrease in debts receivable	1,000	
Cash receipts during the period	49,850	
b. Cost of goods sold	25,000	
Increase in inventory	1,050	
Increase in payments to supplier	<1,000>	
Cash cost of goods sold during the period	25,050	
c. Operating cost	14,400	
Decrease in prepaid expenses	<400>	
Increase in other payments	<500>	
Depreciation cost	<1,700>	
Reserve for falling price of inventory and bad debts	<1,100>	
Cash operating cost during the period	10,700	
d. Company income tax paid	2,500	
Net money transaction from operating activities	11,600	
II. Money transaction from investment activities		
Buying fixed assets (*)	<27,000>	
Receipts from sale of fixed assets	9,500	
Receipts from sale of long-term shares	600	
Net money transaction from investment activities	<16,900>	
III. Money transaction from financial activities		
Payment of debts	<600>	
Long-term loans	5,000	
Increase in capital	4,800	
Incentive and welfare payments to workers	<3,300>	
Net money transaction from financial activities	5,900	

IV. Increase (or decrease) in money and near money	600	
V. The amount of money and near money at the beginning of period	1,000	
VI. The amount of money and near money at the end of period.	1,600	

(*) Difference in values of fixed assets at the beginning and the end of period was: VNĐ 4,500 million. The company has sold assets with original cost of 22,500 million. Thus the sum of money spent on buying fixed assets was 22,500 + 4,500 = 27,000 million.

XYZ COMPANY
199... MONEY TRANSACTION STATEMENT MADE BY THE INDIRECT METHOD

Unit: VNĐ million

Indicators	This year	Last year
I. Money transaction from operating activities		
1. Before-tax profit and unusual changes	10,600	
2. Adjustments to:		
Depreciation	1,700	
Reserve	1,100	
Reserve returned	<1,150>	
Total	1,650	
3. Profit before changes in working capital	12,250	
Decrease in debts receivable	1,000	
Increase in inventory	<1,050>	
Increase in payments of all kinds	1,500	
Decrease in prepaid expenses	400	
4. Money generated from operating activities	13,100	
Paid company income tax	<2,500>	
Net money transaction from operating activities	11,600	
II. Money transaction from investment activities		
Buying fixed assets	<27,000>	
Receipts from sale of fixed assets		
Receipt from sale of long-term shares	9,500	
Money transaction from investment activities	600	
	<16,900>	
III. Money transaction from financial activities		
Payment of debts	<600>	
Increase in long-term loans	5,000	
Increase in capital	4,800	
Incentive and welfare payments to workers	<3,300>	
Money transaction from financial activities	5,900	
IV. Increase (or decrease) in sum of money and near money	600	
V. Sum of money and near money at the beginning of period	1,000	
VI. Sum of money and near money at the end of period	1,600	