

Cash payments to suppliers and employees

Payments to suppliers include payments for the purchase of inventories and services.

To calculate the amount of cash paid to suppliers, you must first calculate the amount of inventories purchased on credit during the year. This is necessary because some purchases are made on credit, and not all the cost of sales relates to purchases made in the current period.

To calculate the amount of inventories purchased on credit, use the calculation:

Closing balance of inventories
 + Cost of sales
 – Opening balance of inventories
 = Amount of inventories purchased on credit

To calculate the amount of cash paid to suppliers during the year look at the:

- movement in the balance of trade payables
- amount of inventories purchased on credit during the year
- amount of other goods and services purchased during the year

To calculate the amount of cash paid to suppliers during the year, use the calculation:

Opening balance of trade payables
 + Inventories purchased on credit
 + other goods and services purchased
 – Closing balance of trade payables
 = Amount of cash paid to suppliers during the year

Payments to employees are calculated by adjusting the employee benefits expense recognised in the profit or loss for movement in the employee benefits liability.

To calculate the cash paid to employees, use the calculation:

Opening balance of employee benefits liability
 + Employee benefits expense
 – Closing balance of employee benefits liability
 = Amount of cash paid to employees

Here are the calculations in the video clip on calculating cash payments to suppliers & employees

Inventories purchased on credit ✓

Closing balance of inventories	+	Cost of sales	–	Opening balance of inventories	=	Inventories purchased on credit
29 000	+	257 500	–	15 000	=	271 500

Cash paid to suppliers ✓

Opening balance of trade payables	+	Inventories purchased on credit	–	Closing balance of trade payables	=	Cash paid to suppliers
52 000	+	271 500	–	21 000	=	302 500 outflow

Total cash paid to suppliers and employees ✓

Cash paid to suppliers	+	Cash paid to employees	=	Total cash paid to suppliers and employees
302 500	+	120 000	=	422 500 outflow