

Aufgabe QR-10.1: Cash Flow Statement – Direct Method with Reconciliation

(Kapitalflussrechnung – Direkte Methode mit Überleitungsrechnung)

MART Ltd. sells groceries in small convenient stores. Assume an opening balance sheet given as in exhibit 1 for MART Ltd. as at 1.01.20X8:

Mart Ltd's			
A	B/S as at 1.01.20X8		C,L
Non-current Asset:	[EUR]	SH's capital	[EUR]
P,P,E	700.000	Issued capital	50.000
Int. assets		Other reserves	
Financial assets		R/E	450.000
Current Assets		Liabilities	
Inventory	350.000	Int. bear. liab.	500.000
A/R		A/P	130.000
Prepaid exp.	50.000	Provisions	
Cash	200.000	Def. income	
		Tax liabilities	170.000
	<u>1.300.000</u>		<u>1.300.000</u>

Exhibit 1: Opening balance sheet as at 1.01.20X8

At the beginning of 20X8 the business paid tax liabilities.

Consider all inventories to be raw materials or goods for sale. During accounting period MART Ltd. bought goods for 2,400,000.00 EUR (gross amount). It paid 60 % on cash - the remaining amount is A/P. Revenue on sales was 4,200,000.00 EUR – gross amount and paid on cash. Closing stock of inventory is 50,000.00 EUR. Consider VAT payables to be paid completely in fiscal 20X9.

During fiscal year salaries amounted to 600,000.00 EUR. The salaries for January 20X9 have been paid in December 20X8 already, the same occurred previous year: for January 20X8 salary is recognised as pre-paid expenses in the balance sheet.

Depreciation on store facilities was 140,000.00 EUR in 20X8.

Interest for all interest bearing liabilities is 5 %. Additionally Mart Ltd. paid off 100,000.00 EUR bank loans.

Required: Do not make bookkeeping entries for activities in T-accounts. Determine Mart Ltd's income statement for 20X8 and balance sheet as at EOY 20X8. Determine the amount of cash by the accounting equation. Derive a cash flow statement along direct method via reconciliation EBT with cash flows. Income tax expenses are to be paid next accounting period in total. Do not consider appropriation of profit yet.

Lösung (Solution)

For income statement the following items are to be computed:

- Net sales = $4,200,000 / 1.2 = \mathbf{3,500,000.00 \text{ EUR}}$
- Materials = $(2,400,000 / 1.2) + 350,000 - 50,000 = \mathbf{2,300,000.00 \text{ EUR}}$
- Depreciation = 140,000.00 EUR
- Labour = $50,000 + 600,000 - 50,000 = \mathbf{600,000.00 \text{ EUR}}$

So income statement looks as below:

Mart Ltd's INCOME STATEMENT for 20X8	
	[EUR]
Revenue	3.500.000
Other income	
Changes in inventory	
Work capitalized	
Raw Material used	(2.300.000)
Employee expense	(600.000)
Depreciation	(140.000)
Impairment of P,P,E	
Other Expenses	
Finance Costs	(25.000)
Profit before Taxes	435.000
Income Tax Expenses	(130.500)
Deferred Tax	0
<i>Profit for the Period</i>	<u><u>304.500</u></u>

Exhibit 2: Income Statement 20X8

To get the full picture see the balance sheet as at EOY 20X8. For computation see the workings below:

- P, P, E = $700,000 - 140,000 = \mathbf{560,000.00 \text{ EUR}}$
- Inventory = 50,000.00 EUR (given)
- A/R = 0 (business sells all products on cash)
- cash to be computed by accounting equation
- Issued capital = 50,000.00 EUR (no changes)
- Retained earnings = $450,000 + 304,500 = \mathbf{754,500.00 \text{ EUR}}$
- Interest bearing liabilities = $500,000 - 100,000 = \mathbf{400,000.00 \text{ EUR}}$
- A/P = $130,000 + 960,000 + 300,000 = \mathbf{1,390,000.00 \text{ EUR}}$
- Tax liabilities = 130,500.00 EUR

MART Ltd's			
A	B/S as at 31.12.20X8		C,L
Non-current Asset:	[EUR]	SH's capital	[EUR]
P,P,E	560.000	Issued capital	50.000
Int. assets		Other reserves	0
Financial assets		R/E	754.500
Current Assets		Liabilities	
Inventory	50.000	Int. bear. liab.	400.000
A/R		A/P	1.390.000
Prepaid exp.	50.000	Provisions	
Cash	???	Def. income	
		Tax liabilities	130.500
	<u>660.000</u>		<u>2.725.000</u>

Exhibit 3: Balance sheet as at EOY 20X8

To fulfill accounting equation cash has to be $2,725,000 - 660,000 = 2,065,000.00$ EUR. Total cash flow is $2,065,000 - 200,000 = 1,865,000.00$ EUR (see exhibit 5).

Cash flow statement for operating activities is as follows:

Mart Ltd's	
RECONCILIATION OF EBT WITH CFoA for 20X8	
Profit for the period	435.000,00
add: depreciation	140.000,00
	<u>575.000,00</u>
Tax payments for 20X7	(170.000,00)
Finance payments	25.000,00
	<u>430.000,00</u>
Changes in Working Capital	
(1) Changes in A/R	0,00
(2) Changes in Inventory	300.000,00
(3) Changes in A/P	960.000,00
	<u>1.690.000,00</u>
Changes in VAT	
(1) VAT receivable	(400.000,00)
(2) VAT payable	700.000,00
	<u>1.990.000,00</u>

Exhibit 4: Cash flows from operating activities

Notes:

- (1) Tax payments are considered to be cash flows from operating activities. They are not included in income statement and therefore are to be deducted.
- (2) Finance payments are relevant for profit and loss but count as cash flows from financing activities.

(3) VAT receivables and payables can be offset if necessary. Do not consider VAT as A/R or A/P for cash flow statement computation.

Not required, but for reason of comparison, see cash flow statement derived from cash account:

Mart Ltd's CFS for 20X8	
	20X8
	[EUR]
CF from operating activities	
Revenue	4.200.000,00
Purchases	(1.440.000,00)
Labour	(600.000,00)
Taxation	(170.000,00)
	<u>1.990.000,00</u>
CF from investing activities	
Investment	0,00
	<u>0,00</u>
CF from financing activities	
Pay off	(100.000,00)
Interest	(25.000,00)
	<u>(125.000,00)</u>
Total cash flow:	<u>1.865.000,00</u>

Exhibit 5: CFS for 20X8