

**Task IM-10.27: Statements of Cash Flows**

MOWBRAY AG is a dealership for plants in Ibbenbüren.

The business is established on 1.01.20X5 by a share issue of 250,000.00 EUR. This share issue is about 100,000 ordinary shares at 2.00 EUR each face value. You have to consider a share premium.

On 10.01.20X5, MOWBRAY AG invests in a plot to sell the plants thereon. The plot costs 400,000.00 EUR (cost of acquisition) and is paid to an extent of 100,000.00 EUR. The amount of 300,000.00 EUR is financed and secured by the plot itself. The rate of interest for the mortgage is 3.8 %. The annuity to be paid at every yearend amounts to 25,000.00 EUR. Show long-term liabilities separate from short-term ones. However, you do not have to discount long-term liabilities.

In 20X5 MOWBRAY AG buys and pays for plants for 500,000.00 EUR (cost of purchase). In the same year the company sells and receives payments for plants which cost 388,000.00 EUR (cost of purchase) at 776,000.00 EUR (net selling price).

The furniture for the selling area is bought on 3.01.20X5 at 100,000.00 EUR (cost of acquisition) on credit. The amount is to be paid in 20X6. Depreciation on the furniture is along straight line method over a useful life being 8 years, the residual value is 20,000.00 EUR after 8 years.

Labour is 120,000.00 EUR per annum and paid in full. Furthermore MOWBRAY AG paid on 28.12.20X5 the January salaries which amount to 10,000.00 EUR in advance.

**Required: Prepare a statement of cash flows (IAS 7) by reconciliation of profit with cash flows for the accounting period 20X5. There is no appropriation of profit. Income taxes and VAT are to be paid or gets refunded in the next year. § 150 AktG applies. You can use one VAT account for operating activities and investments, so VAT for investments counts as VAT for operative activities!**

MOWBRAY AG ist ein Pflanzenhändler in Ibbenbüren. Das Unternehmen wird am 1.01.20X5 durch eine Aktienausgabe von 250,000.00 EUR gegründet. Diese Aktienausgabe umfasst 100.000 Stammaktien zu jeweils 2,00 EUR Nennwert. Es wird eine Kapitalrücklage gebildet.

Am 10.01.20X5 investiert MOWBRAY in ein Grundstück, um Pflanzen darauf zu verkaufen. Das Grundstück hat Anschaffungskosten von 400.000,00 EUR und wird nur teilweise bezahlt. Ein Betrag von 300.000,00 EUR wird finanziert und durch das Grundstück gesichert. Der Zinssatz für die Hypothek ist 3,8 %/a. Die jährliche Zahlung an die Bank zum Jahresende beträgt 25.000,00 EUR. Trennen Sie kurz- und langfristige Schulden. Sie brauchen langfristige Schulden nicht zu diskontieren.

In 20X5 kauft und bezahlt die MOWBRAY AG Pflanzen für 500.000,00 EUR (Anschaffungskosten). Im gleichen Jahr verkauft und das Unternehmen Pflanzen die 388.000,00 EUR gekostet haben (Anschaffungskosten) zu einem Nettoverkaufserlös von 776.000,00 EUR und erhält die Zahlungen in bar. Die Möbel für die Verkaufsfläche werden am 3.01.20X5 für 100.000,00 EUR (Anschaffungskosten) angeschafft. Die Möbel werden in 20X6 bezahlt. Die Abschreibung der Möbel erfolgt nach linearer Abschreibungsmethode über eine Nutzungsdauer von 8 Jahren, der Restbuchwert nach 8 Jahren ist 20.000,00 EUR.

Die Lohnkosten betragen 120.000,00 EUR pro Jahr und werden vollständig gezahlt. Weiter zahlt MOWBRAY am 28.12.20X5 das Januargehalt für 20X6 mit einem Betrag von 10.000,00 EUR im Voraus.

**Gefragt: Erstellen Sie eine Kapitalflussrechnung (IAS 7) durch eine Überleitungsrechnung für die Abrechnungsperiode 20X5. Es gibt keine Gewinnverwendung. Steuern vom Einkommen und**

Ertrag und Umsatzsteuer werden im nächsten Jahr gezahlt/erstattet. Der Paragraph § 150 AktG ist anzuwenden. Sie können ein Umsatzsteuerkonto für operative und Investitionstätigkeiten gemeinsam verwenden, so dass die Vorsteuer für Investitionen zum operativen Kapitalfluss gezahlt wird.

### Solution

(1) Issue of shares

<b>DR Cash/Bank</b> .....	250,000.00 EUR
<b>CR Share Capital</b> .....	200,000.00 EUR
<b>CR Capital Reserves</b> .....	50,000.00 EUR

(2) Acquisition of the plot

<b>DR P, P, E</b> .....	400,000.00 EUR
<b>CR Cash/Bank</b> .....	100,000.00 EUR
<b>CR Interest Bearing Liabilities</b> .....	300,000.00 EUR

(3) Paying annuity of 25,000.00 EUR that contains an amount of interest being  $3.8\% \times 300,000 = 11,400.00$  EUR.

<b>DR Interest</b> .....	11,400.00 EUR
<b>DR Interest Bearing Liabilities</b> .....	13,600.00 EUR
<b>CR Cash/Bank</b> .....	25,000.00 EUR

(4) Separate short-term liabilities: Amount of pay-off is  $25,000 - (300,000 - 13,600) \times 3.8\% = 14,116.80$  EUR. (not required for task!)

<b>DR Interest Bearing Liabilities</b> .....	14,116.80 EUR
<b>CR Accounts Payables</b> .....	14,116.80 EUR

(5) Purchase of plants

<b>DR Purchase</b> .....	500,000.00 EUR
<b>DR VAT</b> .....	100,000.00 EUR
<b>CR Cash/Bank</b> .....	600,000.00 EUR

(6) Sale of plants

<b>DR Cash/Bank</b> .....	931,200.00 EUR
<b>CR VAT</b> .....	155,200.00 EUR
<b>CR Revenue</b> .....	776,000.00 EUR

(7) Acquisition of furniture 100,000.00 EUR

<b>DR P, P, E</b> .....	<b>100,000.00 EUR</b>
<b>DR VAT</b> .....	<b>20,000.00 EUR</b>
<b>CR Accounts Payables</b> .....	<b>120,000.00 EUR</b>

(8) Depreciation on sales room furniture  $(100,000 - 20,000)/8 = 10,000.00$  EUR.

<b>DR Depreciation</b> .....	<b>10,000.00 EUR</b>
<b>CR Accumulated Depreciation</b> .....	<b>10,000.00 EUR</b>

(9) Payment for labour:  $120,000 + 10,000 = 130,000.00$  EUR

<b>DR Labour</b> .....	<b>130,000.00 EUR</b>
<b>CR Cash/Bank</b> .....	<b>130,000.00 EUR</b>

(10) Accrual of January's salary (20X6)

<b>DR Prepaid Expenses</b> .....	<b>10,000.00 EUR</b>
<b>CR Labour</b> .....	<b>10,000.00 EUR</b>

Observe the profit calculation by the accounts below:

D		Cash/Bank	C
(1)	250,000.00	(2)	100,000.00
(6)	931,200.00	(3)	11,400.00
		(3)	13,600.00
		(5)	600,000.00
		(9)	130,000.00
		c/d	326,200.00
	<u>1,181,200.00</u>		<u>1,181,200.00</u>
b/d	326,200.00		

D		Share capital	C
c/d	200,000.00	(1)	200,000.00
		b/d	200,000.00

D		Capital reserves	C
c/d	50,000.00	(1)	50,000.00
		b/d	50,000.00

D		PPE	C
(2)	400,000.00		
(7)	100,000.00	c/d	500,000.00
	<u>500,000.00</u>		<u>500,000.00</u>
b/d	500,000.00		

D		VAT	C
(5)	100,000.00	(6)	155,200.00
(7)	20,000.00		
c/d	35,200.00		
	<u>155,200.00</u>		<u>155,200.00</u>
		b/d	35,200.00

D		Interest bearing liabilities	C
(3)	13,600.00	(2)	300,000.00
(4)	14,116.80		
c/d	272,283.20		
	<u>300,000.00</u>		<u>300,000.00</u>
		b/d	272,283.20

D		A/P	C
		(4)	14,116.80
c/d	134,116.80	(7)	120,000.00
	<u>134,116.80</u>		<u>134,116.80</u>
		b/d	134,116.80

D		Interest	C
(3)	11,400.00	P&L	11,400.00

D		Purchase	C
(5)	500,000.00	P&L	500,000.00

D		Sales	C
P&L	776,000.00	(6)	776,000.00

D		Depreciation	C
(8)	10,000.00	P&L	10,000.00

D		Accumulated Depreciation	C
c/d	10,000.00	(8)	10,000.00
		b/d	10,000.00

## Exhibit 1: Accounts

D Labour C	
(9)	130,000.00
	<u>130,000.00</u>
(10)	10,000.00
c/d	<u>120,000.00</u>
	<u>130,000.00</u>

D Prepaid expenses C	
(10)	10,000.00
b/d	<u>10,000.00</u>
c/d	<u>10,000.00</u>

D Profit and loss account C	
Purch	500,000.00
Interest	11,400.00
Depr	10,000.00
Labour	120,000.00
EBT c/d	<u>246,600.00</u>
	<u>888,000.00</u>
ITL	73,980.00
R/E	<u>172,620.00</u>
	<u>246,600.00</u>
Sales	776,000.00
Inv plts	112,000.00
b/d	<u>246,600.00</u>
	<u>888,000.00</u>

D Inventory of plants C	
P&L	<u>112,000.00</u>
b/d	<u>112,000.00</u>
c/d	<u>112,000.00</u>

D Income tax liabilities C	
c/d	<u>73,980.00</u>
P&L	73,980.00
b/d	<u>73,980.00</u>

D R/E C	
c/d	<u>172,620.00</u>
P&L	172,620.00
b/d	<u>172,620.00</u>

Exhibit 1: Accounts (continued)

**MOWBRAY AG's  
STATEMENT of COMPREHENSIVE INCOME  
for the year ended 31.12.20X5**

	[EUR]
Revenue	776,000.00
Other income	
	<u>776,000.00</u>
Materials	388,000.00
Labour	120,000.00
Depreciation	10,000.00
Other expenses	
Earnings before int and taxes (EBIT)	<u>258,000.00</u>
Interest	11,400.00
<b>Earnings before taxes (EBT)</b>	<u><b>246,600.00</b></u>
Income tax expenses	73,980.00
Deferred taxes	
<b>Earnings after taxes (EAT)</b>	<u><b>172,620.00</b></u>

Exhibit 2: MOWBRAY AG's income statement

**MOWBRAY AG's  
STATEMENT of FINANCIAL POSITION**

A	as at 31.12.20X5		C, L
<i>Non-current assets</i>		<i>Owners' capital</i>	
	[EUR]		[EUR]
P, P, E	490,000.00	Share capital	200,000.00
Intangibles		Reserves	50,000.00
Financial assets		R/E	172,620.00
<i>Current assets</i>		<i>Liabilities</i>	
Inventory	112,000.00	Interest bear liab	272,283.20
A/R		A/P	169,316.80
Prepaid expenses	10,000.00	Provisions	
Cash/Bank	326,200.00	Tax liabilities	73,980.00
	<b>938,200.00</b>		<b>938,200.00</b>

**Exhibit 3:** MOWBRAY AG's statement of financial position

Observe the statement of cash flows below:

**MOWBRAY AG's  
STATEMENT of CASH FLOWS  
for the period ended 31.12.20X5**

<i>Cash flow from operating activities</i>		
as below:	201,200.00	201,200.00
<i>Cash flow from investing activities</i>		
Investments	(400,000.00)	(400,000.00)
<i>Cash flow from financing activities</i>		
Share issue	250,000.00	
Bank loan received	300,000.00	
Interest	(11,400.00)	
Pay-off	(13,600.00)	
		525,000.00
		<b>326,200.00</b>

**Exhibit 4:** MOWBRAY AG's statement of cash flows

**MOWBRAY AG's  
RECONCILIATION of EARNINGS  
before TAXATION with CFoA  
for year ended 31.12.20X5**

Profit for the period	172,620.00
add: depreciation	10,000.00
	<u>182,620.00</u>
Finance payments	11,400.00
	<u>194,020.00</u>
Changes in working capital	
(1) Changes in A/R, prep exp	(10,000.00)
(2) Changes in inventory	(112,000.00)
(3) Changes in A/P	73,980.00
	<u>146,000.00</u>
Changes in VAT	
(1) VAT receivable	(100,000.00)
(2) VAT payable	155,200.00
	<u><b>201,200.00</b></u>

**Exhibit 5:** MOWBRAY AG's reconciliation statement

Consider the following:

As the transfer for short term liabilities is not cash relevant, there is no need to consider that bookkeeping entry. The increase of A/P is finance based and doesn't count as an increase of A/P for the cash flow from operating expenses.

Prepaid expenses are seen as a receivable from the employees. There has been a payment and there is an obligation for the employees to work.

The investment is considered being 180,000.00 EUR only as paid. Only the plot is paid. The amount is not 400,000.00 EUR as the remaining amount of 300.000,00 EUR got financed.

As § 150 AktG applies MOWBRAY has to make sure there is an amount of 20,000.00 EUR in the capital and legal reserves. This request is fulfilled by the capital reserves being 50,000.00 EUR already.