

Task IM-10.29: Cash Flow Statement, Reconciliation Method

(Kapitalflussrechnung, Überleitungsrechnung)

GARTOW Partners is a fish restaurant in North Germany based on a partnership. The company is established in 20X0 by the brothers Niko Gartow (33.33 %) and Kevin Gartow (66.67 %). The business displays the statement of financial position as below:

GARTOW partners' STATEMENT of FINANCIAL POSITION as at 31.12.20X5			
A			C, L
<i>Non-current assets</i>	[EUR]	<i>Equity</i>	[EUR]
P, P, E	75,000.00	Owners' equity	90,000.00
Intangibles			
Financial assets			
<i>Current assets</i>		<i>Liabilities</i>	
Inventory	20,000.00	Interest bear liab	30,000.00
Accounts receivables	5,000.00	Accounts payables	
Prepaid expenses	15,000.00	Provisions	
Cash/Bank	5,000.00		
Total assets	120,000.00	Total equity and liab.	120,000.00

Exhibit 1: Statement of financial position

The amount of inventory is frozen fish. The prepaid expenses are for salaries (10,000.00 EUR) and rent (5,000.00 EUR).

In 20X6, GARTOW Partners records the below business activities:

- (1) Appointing the cook Jana Woltersdorf partner. Jana contributes 30,000.00 EUR in order to become a 25 % partner. The other partners' interest drops to 25 % (Nico) and 50 % (Kevin). The memorandum of incorporation states that the partners can only withdraw cash based on a ratio that is proportional to their percentage of ownership. The contribution is paid in on cash in GARTOW Partner's bank account.
- (2) Purchase and payment of materials (frozen fish) at purchase costs of 80,000.00 EUR (net amount), you have to consider VAT at a VAT rate of 20 %.
- (3) Collecting receivables from their customers that result from revenues to the extent of 3,200.00 EUR. The remaining receivables are considered bad debts and written off.
- (4) Payment salaries of 120,000.00 EUR to the cook/waiters-team, 10,000.00 EUR thereof are for January 20X7, paid in December 20X6 in advance.
- (5) Finishing-off fish to an extent of 62,000.00 EUR. The remaining amount stays on stock. (GARTOW Partners apply a first-in-first-out inventory movement system.)

- (6) Payment of rent for the restaurant 60,000.00 EUR. 5,000.00 EUR thereof are for January 20X7's rent, paid in December 20X6. Rent is no subject to VAT.
- (7) The partnership is earning proceeds to the extent of 360,000.00 EUR (gross amount). 95 % thereof are paid by the customers, the remaining amount is awaited to be paid in 20X7 by the debtors.
- (8) Depreciation of the restaurant to an extent of 25,000.00 EUR.
- (9) Payment of interest (2,500.00 EUR) and pay-off (5,000.00 EUR)
- (10) The partners withdraw together 60,000.00 EUR.

Required: Prepare an income statement and derive a statement of cash flows by reconciliation method. Pls., consider that a partnership is no taxpayer, so there won't be any tax liabilities linked to the company.

Solution:

D		P, P, E		C	D		Inventory		C
OV	75,000.00	c/d	75,000.00		OV	20,000.00	(5)	62,000.00	
b/d	75,000.00				(2)	80,000.00	c/d	38,000.00	
						100,000.00		100,000.00	
					b/d	38,000.00			

D		A/R		C	D		Prepaid expenses		C
OV	5,000.00	(3a)	3,200.00		OV	15,000.00	(4a)	10,000.00	
(7)	18,000.00	(3b)	1,800.00		(4c)	10,000.00	(6a)	5,000.00	
		c/d	18,000.00		(6c)	5,000.00	c/d	15,000.00	
	23,000.00		23,000.00			30,000.00		30,000.00	
b/d	18,000.00				b/d	15,000.00			

Exhibit 2: Accounts

Cash/Bank				Owners' equity			
D			C	D			C
OV	5,000.00	(2)	96,000.00	(10)	60,000.00	OV	90,000.00
(1)	30,000.00	(4b)	120,000.00	c/d	60,000.00	(1)	30,000.00
(3a)	3,200.00	(6b)	60,000.00		120,000.00		120,000.00
(7)	342,000.00	(9a)	2,500.00			b/d	60,000.00
		(9b)	5,000.00	c/d	89,000.00	P	29,000.00
		(10)	60,000.00		89,000.00		89,000.00
		c/d	36,700.00			b/d	89,000.00
	380,200.00		380,200.00				
b/d	36,700.00						

Interest bearing liabilities				VAT			
D			C	D			C
(9b)	5,000.00	OV	30,000.00	(2)	16,000.00	(7)	60,000.00
c/d	25,000.00			(3b)	300.00		
	30,000.00		30,000.00	c/d	43,700.00		
		c/d	25,000.00		60,000.00		60,000.00
						b/d	43,700.00

Bad debts				Labour			
D			C	D			C
(3b)	1,500.00	P&L	1,500.00	(4a)	10,000.00	(4c)	10,000.00
				(4b)	120,000.00	c/d	120,000.00
					130,000.00		130,000.00
				b/d	120,000.00	Lab	120,000.00

Material expenses				Rent			
D			C	D			C
(5)	62,000.00	Rev	62,000.00	(6a)	5,000.00	(6c)	5,000.00
				(6b)	60,000.00	c/d	60,000.00
					65,000.00		65,000.00
				b/d	60,000.00		

Revenue				Depreciation			
D			C	D			C
Rev	300,000.00	(7)	300,000.00	(8)	25,000.00	P&L	25,000.00

Acc depr				Interest			
D			C	D			C
c/d	25,000.00	(8)	25,000.00	(9a)	2,500.00	P&L	2,500.00
		b/d	25,000.00				

Exhibit 2: Accounts (continued)

D		Profit and Loss	C	
Mat	62,000.00	Rev	300,000.00	
Rnt	60,000.00			
Lab	120,000.00			
BD	1,500.00			
Int	2,500.00			
Dpr	25,000.00			
P	29,000.00			
	<u>300,000.00</u>		<u>300,000.00</u>	
R/E	29,000.00	b/d	29,000.00	

Exhibit 2: Accounts (continue)

Gartow Partners'
STATEMENT of COMPREHENSIVE INCOME
for the year ended 31.12.20X6

	[EUR]
Revenue	300,000.00
Other income	
	<u>300,000.00</u>
Materials	(62,000.00)
Labour	(120,000.00)
Depreciation	(25,000.00)
Other expenses	(61,500.00)
Earnings before int. & taxes (EBIT)	<u>31,500.00</u>
Interest	(2,500.00)
Earnings before taxes (EBT)	<u>29,000.00</u>

Exhibit 3: Income statement

Gartow Partners' STATEMENT of CASH FLOWS for the period ended 31.12.20X6		
<i>Cash flow from operating activities</i>		
EBT	29,000.00	
add Interest paid	2,500.00	
add Depreciation	25,000.00	
	<u>56,500.00</u>	
<i>changes in working capital</i>		
changes in A/R	(13,000.00)	
changes in inventory	(18,000.00)	
changes in A/P	0.00	
changes in VAT/r only materials	(16,300.00)	
changes in VAT/p	60,000.00	
		<u>69,200.00</u>
<i>Cash flow from investing activities</i>		
Investments	0.00	
...		
		<u>0.00</u>
<i>Cash flow from financing activities</i>		
Appointment	30,000.00	
Drawing	(60,000.00)	
Pay-off plus interest	(7,500.00)	
...		
		<u>(37,500.00)</u>
Total cash flow		<u>31,700.00</u>

Exhibit 4: Statement of cash flows

Even as not required: Check the balance sheet:

GARTOW partners'
STATEMENT of FINANCIAL POSITION
as at 31.12.20X6

A			C, L
<i>Non-current assets</i>	[EUR]	<i>Equity</i>	[EUR]
P, P, E	50,000.00	Owners' equity	89,000.00
Intangibles			
Financial assets			
<i>Current assets</i>		<i>Liabilities</i>	
Inventory	38,000.00	Interest bear liab	25,000.00
Accounts receivables	18,000.00	Accounts payables	43,700.00
Prepaid expenses	15,000.00	Provisions	
Cash/Bank	36,700.00		
Total assets	157,700.00	Total equity and liab.	157,700.00

Exhibit 5: Balance sheet