

Task IM-10.32: Statements of Cash Flows, Reconciliation

RIETMÖLLER Ltd. is an internet dealership for garden tools.

The business is established on 1.01.20X1 by a share issue of 250,000.00 EUR. On 2.01.20X1 RIETMÖLLER Ltd. takes a bank loan of 200,000.00 EUR which is an annuity coming with a rate of interest of 3.5 % and an initial pay-off rate of 2.5 %. The annuity is due every yearend.

On 3.01.20X1 RIETMÖLLER Ltd. buys computer hardware for 30,000.00 EUR. Half of the amount thereof is to be paid in 20X2. Depreciation is along straight line method over a period of 4 years. The residual amount will be 10,000.00 EUR.

RIETMÖLLER Ltd. buys goods from the suppliers for 350,000.00 EUR and sells 80 % thereof at a net selling price of 230 % of the cost of purchase. The customers pay to an extent of 95 %. The other 5 % are posted to receivables.

Labour is 72,000.00 EUR/a and will be paid one month in advance. In 20X1, RIETBERG pays 13 monthly salaries.

The payment to the shareholders as a dividend is a 50 % amount of the profit after taxes. The payment will occur in the next accounting period. You have to credit the amount to the accounts payables as they are a short-term liability. The other portion goes to the Earnings Reserves account. Consider the total income tax rate being 30 %. Taxes are to be paid in the next accounting period.

Required: Prepare a statement of financial position after the appropriation of profit. Derive a statement of cash flows by direct method with reconciliation. Consider VAT.

Die RIETMÖLLER Ltd. ist ein Internethändler für Gartengeräte.

Das Unternehmen wird am 1.01.20X1 durch Ausgabe von Stammaktien im Umfang von 250.000,00 EUR gegründet. Am 2.01.20X1 nimmt die RIETMÖLLER Ltd. ein Bankdarlehen i.H.v. 200.000,00 EUR auf, das ein Annuitätendarlehen mit einem Zinssatz von 3,5 %/a und einer anfänglichen Tilgungsrate von 2,5 %/a bezogen auf den Nennbetrag ist. Die Annuitäten sind jedes Jahr zum Jahresende fällig.

Am 3.01.20X1 kauft die RIETMÖLLER Ltd. Computerhardware für 30.000,00 EUR an. Die Hälfte des Betrags wird in 20X2 bezahlt. Die Abschreibung ist nach linearer Abschreibungsmethode über eine Nutzungsdauer von 4 Jahren. Der Restbuchwert beträgt 10.000,00 EUR.

Die RIETMÖLLER Ltd. kauft Waren von ihrem Lieferanten für 350.000,00 EUR Anschaffungskosten und verkauft 80 % davon zu einem Nettoverkaufspreis von 230 % der Anschaffungskosten bar. Die Kunden zahlen im Umfang von 95 %. Die anderen 5 % werden als Forderungen gebucht.

Die Löhne betragen 72.000,00 EUR/Jahr und werden einen Monat im Voraus gezahlt. Die RIETMÖLLER Ltd. zahlt in 20X1 13 Gehälter, eines davon für Januar 20X2.

Die Zahlung und die Anteilseigner (Dividend) machen 50 % des Gewinns nach Steuern aus. Die Dividendenzahlung findet in der nächsten Abrechnungsperiode statt. Sie müssen den Betrag in die Verbindlichkeiten buchen. Der andere Teil wird den Gewinnrücklagen zugeführt. Der Unternehmenssteuersatz beträgt 30 %. Steuern werden in der nächsten Periode gezahlt.

Gefragt: Erstellen Sie eine Gewinn- und Verlustrechnung sowie eine Kapitalflussrechnung nach der direkten Methode mit Überleitungsrechnung für 20X1. Berücksichtigen Sie die Umsatzsteuer.

Solution

Profit and Loss statement (COS format).

- Revenue: $350,000 \times 2.3 \times 80\% = 644,000.00$ EUR.
- Materials: $350,000 \times 80\% = 280,000.00$ EUR.
- Depreciation: $(30,000 - 10,000)/4 = 5,000.00$ EUR.
- Labour 72,000.00 EUR.
- interest: $3.5\% \times 200,000 = 7,000.00$ EUR.

Rietmüller Ltd.'s STATEMENT of COMPREHENSIVE INCOME for the year ended 31.12.20X1	
	[EUR]
Revenue	644,000.00
Other income	
	644,000.00
Materials	(280,000.00)
Labour	(72,000.00)
Depreciation	(5,000.00)
Other expenses	
Earnings before int. & taxes (EBIT)	287,000.00
Interest	(7,000.00)
Earnings before taxes (EBT)	280,000.00
Income tax expenses	(84,000.00)
Deferred taxes	
Earnings after taxes (EAT)	196,000.00

Exhibit 1: Income statement

Reconciliation statement:

- A/R: prepaid expenses plus receivables from selling garden tools: $6,000 + 350,000 \times 0.8 \times 120\% \times 5\% = 22,800.00$ EUR.
- changes in inventory: $350,000 \times 20\% = 70,000.00$ EUR.
- A/P: tax liabilities plus money RIETBERG Ltd. owes the supplier: 83,475
- VAT/r: $350,000 \times 20\% = 70,000.00$ EUR.
- VAT/p: $350,000 \times 80\% \times 20\% = 56,000.00$ EUR.

**Rietmüller Ltd.'s
STATEMENT of CASH FLOWS
for the period ended 31.12.20X0**

<i>Cash flow from operating activities</i>	
EAT	196,000.00
add Interest paid	7,000.00
add Coupon paid	
add Depreciation	5,000.00
...	
	<u>208,000.00</u>
<i>changes in working capital</i>	
changes in A/R	(44,640.00)
changes in inventory	(70,000.00)
changes in A/P	84,000.00
changes in VAT/r only materials	(70,000.00)
changes in VAT/p	128,800.00
	<u>236,160.00</u>
<i>Cash flow from investing activities</i>	
Investments	(18,000.00)
...	
	<u>(18,000.00)</u>
<i>Cash flow from financing activities</i>	
Share issue	250,000.00
Bank loan received	200,000.00
Pay-off plus interest	(12,000.00)
...	
	<u>438,000.00</u>
Total cash flow	<u><u>656,160.00</u></u>

Exhibit 2: Statement of cash flows

(1) Issue of shares

DR Cash/Bank	250,000.00 EUR
CR Share Capital	250,000.00 EUR

(2) Taking the bank loan of 200,000.00 EUR

DR Cash/Bank	200,000.00 EUR
CR Interest Bearing Liab.	200,000.00 EUR

(3) Payment of interest $3.5\% \times 200,000 = 7,000.00$ EUR.

DR Interest	7,000.00 EUR
CR Cash/Bank	7,000.00 EUR

(4) Pay-off of the bank loan in 20X1: $2.5\% \times 200,000 = 5,000.00$ EUR. Note, the annuity amounts to $7,000 + 5,000 = 12,000.00$ EUR.

DR Interest Bearing Liab	5,000.00 EUR
CR Cash/Bank	5,000.00 EUR

(5) Transfer of next year's pay-off amount to short-term liabilities. The amount is $12,000 - 3.5\% \times (200,000 - 5,000) = 5,175.00$ EUR.

DR Interest Bearing Liab.	5,175.00 EUR
CR Short-term Liab. (A/P)	5,175.00 EUR

(6) Acquisition of computer hardware at 30,000.00 EUR.

DR P, P, E	30,000.00 EUR
DR VAT	6,000.00 EUR
CR Cash/Bank	18,000.00 EUR
CR A/P	18,000.00 EUR

(7) Depreciation on computers $(30,000 - 10,000)/4 = 5,000.00$ EUR.

DR Depreciation	5,000.00 EUR
CR Acc. Depr.	5,000.00 EUR

(8) Purchase of goods. RIETMÖLLER Ltd. applies a periodic inventory system in order to keep the bookkeeping entries low.

DR Purchase	350,000.00 EUR
DR VAT	70,000.00 EUR
CR Cash/Bank	420,000.00 EUR

(9) Sales of the goods at 230 % of their purchase costs: $350,000 \times 80\% \times 2.3 = 644,000.00$ EUR. 95 % of sales with regard to the value are on cash: $95\% \times 644,000 \times 120\% = 734,160.00$ EUR.

DR Cash/Bank	734,160.00 EUR
DR Accounts Receivables	38,640.00 EUR
CR VAT	128,800.00 EUR
CR Revenue	644,000.00 EUR

(10) Payment for labour:

DR Labour	72,000.00 EUR
DR Prepaid Expenses	6,000.00 EUR
CR Cash/Bank	78,000.00 EUR

Observe the profit calculation in exhibit 1:

D		Cash/Bank	C	D		Issued capital	C
(1)	250,000.00	(3)	7,000.00	c/d	250,000.00	(1)	250,000.00
(2)	200,000.00	(4)	5,000.00			b/d	250,000.00
(9)	734,160.00	(6)	18,000.00				
		(8)	420,000.00				
		(10)	78,000.00				
		c/d	656,160.00				
	<u>1,184,160.00</u>		<u>1,184,160.00</u>				
b/d	656,160.00						

D		Labour	C
(10)	72,000.00	c/d	72,000.00
b/d	72,000.00		

Exhibit 3: Accounts

Interest bearing liabilities			
D		C	
(4)	5,000.00	(2)	200,000.00
(5)	5,175.00		
c/d	189,825.00		
	<u>200,000.00</u>		<u>200,000.00</u>
		b/d	189,825.00

Interest			
D		C	
(3)	7,000.00	P&L	7,000.00
	<u>7,000.00</u>		

Short-term liabilities (A/P)			
D		C	
		(5)	5,175.00
c/d	23,175.00	(6)	18,000.00
	<u>23,175.00</u>		<u>23,175.00</u>
		b/d	23,175.00
c/d	121,175.00	A/P	98,000.00
	<u>121,175.00</u>		<u>121,175.00</u>
		b/d	121,175.00

P, P, E			
D		C	
(6)	30,000.00	c/d	30,000.00
b/d	30,000.00		<u>30,000.00</u>

Depreciation			
D		C	
(7)	5,000.00	c/d	5,000.00
b/d	5,000.00		<u>5,000.00</u>

Acc depreciation			
D		C	
c/d	5,000.00	(7)	5,000.00
	<u>5,000.00</u>	b/d	5,000.00

Purchase			
D		C	
(8)	350,000.00	P&L	350,000.00
	<u>350,000.00</u>		<u>350,000.00</u>

Inventory			
D		C	
cl stock	70,000.00	c/d	70,000.00
b/d	70,000.00		<u>70,000.00</u>

A/R			
D		C	
(9)	38,640.00	c/d	38,640.00
b/d	38,640.00		<u>38,640.00</u>

Revenue			
D		C	
P&L	644,000.00	(9)	644,000.00
	<u>644,000.00</u>		<u>644,000.00</u>

ITL			
D		C	
c/d	84,000.00	P&L	84,000.00
	<u>84,000.00</u>	b/d	84,000.00

P&L account			
D		C	
Purch	350,000.00	Rev	644,000.00
Int	7,000.00	cl stock	70,000.00
Depr	5,000.00		
Lab	72,000.00		
EBTc/d	280,000.00		
	<u>714,000.00</u>		<u>714,000.00</u>
ITL	84,000.00	b/d	280,000.00
R/E	196,000.00		
	<u>280,000.00</u>		<u>280,000.00</u>

R/E			
D		C	
A/P	98,000.00	P&L	196,000.00
Res	98,000.00		
	<u>196,000.00</u>		<u>196,000.00</u>

Reserves			
D		C	
c/d	98,000.00	Res	98,000.00
	<u>98,000.00</u>	b/d	98,000.00

VAT			
D		C	
(6)	6,000.00	(9)	128,800.00
(8)	70,000.00		
c/d	52,800.00		
	<u>128,800.00</u>		<u>128,800.00</u>
		b/d	52,800.00

Prepaid expenses			
D		C	
(10)	6,000.00	c/d	6,000.00
b/d	6,000.00		<u>6,000.00</u>

Exhibit 3: Accounts (continued)

Observe the statement of financial position as below:

Rietmüller Ltd.'s STATEMENT of FINANCIAL POSITION as at 31.12.20X1			
A			C, L
<i>Non-current assets</i>	[EUR]	<i>Owners' capital</i>	[EUR]
P, P, E	25,000.00	Share capital	250,000.00
Intangibles		Reserves	98,000.00
Financial assets		R/E	0.00
<i>Current assets</i>		<i>Liabilities</i>	
Inventory	70,000.00	Interest bear liab	189,825.00
A/R	38,640.00	A/P	173,975.00
Prepaid expenses	6,000.00	Provisions	
Cash/Bank	656,160.00	Tax liabilities	84,000.00
	795,800.00		795,800.00

Exhibit 4: Statement of financial position (not required)