

Task IM-10.36: Statements of Cash Flows, Reconciliation

OBERORT (Pty) Ltd. is a production firm for ties (Kravatten). The costs of manufacturing per tie are 7.60 EUR/u. Consider the cost of manufacturing paid in the Accounting period of production but do not consider VAT. OBERORT has 2,300 ties on stock (same carrying amount: 7.60 EUR) and produces 205,000 ties in the Accounting period 20X4. In 20X4, the company sells 180,900 ties at a net selling price of 23.00 EUR. VAT applies at a VAT rate of 20%. 150,000 ties are sold on cash, the remaining ties are bought on credit (auf Rechnung verkauft). One customer who did not pay for its 2,000 ties yet informs OBERORT (Pty) Ltd. that it filed for bankruptcy. Consider the outstanding payment for 2,000 ties as bad debts accordingly. The broke customer does not return the ties.

OBERORT (Pty) Ltd. is financed with a bank loan which has an amount of 200,000.00 EUR at the beginning of the Accounting period 20X4. The regular pay-off amount is 20,000.00 EUR at the end of 20X4 (31.12.20X4). Interest is 4.5 %/a. On 30.06.20X4, OBERORT (Pty) Ltd. pays an unscheduled pay-off amount (Sondertilgung) to the extent of 50,000.00 EUR to the bank.

Depreciation on the administration building is 665,000.00 EUR/a. Administration costs are 900,000.00 EUR and are not subject to VAT.

Required: Calculate the profit before taxation in a Profit and Loss account. Prepare a statement of cash flows with a reconciliation of the operating cash flows with the earnings before taxation. Consider tax payments to take place one Accounting period deferred (um eine Periode verzögert). Do not consider VAT for cost of manufacturing as you do not know the portion of material expenses.

Solution:

For the profit calculation some workings are required:

- (1) Cost of sales: $180,900 \times 7.60 = \mathbf{1,374,840.00 \text{ EUR}}$.
- (2) Revenue: $180,900 \times 23 = \mathbf{4,160,700.00 \text{ EUR}}$.
- (3) Sales on credit, increase of A/R: $(180,900 - 150,000) \times 23 \times 120\% = \mathbf{852,840.00 \text{ EUR}}$.
- (4a) Bad debts impact on A/R: $-2,000 \times 23 \times 120\% = \mathbf{-55,200.00 \text{ EUR}}$.
- (4b) Bad debts: $2,000 \times 23 = \mathbf{46,000.00 \text{ EUR}}$.
- (5) Changes in inventory of finished goods: increase of: $(205,000 - 180,900) \times 7.60 = \mathbf{183,160.00 \text{ EUR}}$.
- (6) Changes in output-VAT: $(180,900 - 2,000) \times 23 \times 20\% = \mathbf{882,940.00 \text{ EUR}}$. (reduced by the bad debts)
- (7) Interest: $200,000 \times 4.5\% \times 50\% + (200,000 - 50,000) \times 4.5\% \times 50\% = \mathbf{7,875.00 \text{ EUR}}$.
- (8) Pay-off: $20,000 + 50,000 = \mathbf{70,000.00 \text{ EUR}}$.

**Oberort (Pty) Ltd.'s
STATEMENT of PROFIT & LOSS
and OTHER COMPREHENSIVE INCOME
for the year ended 31.12.20X4**

	[EUR]
Revenue	4,160,700.00
Other income	
	4,160,700.00
COS	(1,374,840.00)
Labour	0.00
Depreciation	(665,000.00)
Other expenses	(946,000.00)
Earnings before int. & taxes (EBIT)	1,174,860.00
Interest	(7,875.00)
Earnings before taxes (EBT)	1,166,985.00
Income tax expenses	(350,095.50)
Deferred taxes	
Earnings after taxes (EAT)	816,889.50

Exhibit 1: Income statement

**Oberort (Pty) Ltd.'s
STATEMENT of CASH FLOWS
for the period ended 31.12.20X4**

<i>Cash flow from operating activities</i>	
EBT	1,166,985.00
add Interest paid	7,875.00
add Depreciation	665,000.00
...	
	1,839,860.00
<i>changes in working capital</i>	
changes in A/R (adj)	(797,640.00)
changes in inventory	(183,160.00)
changes in VAT/p (adj)	822,940.00
	1,682,000.00
<i>Cash flow from investing activities</i>	
Investments	
...	
	0.00
<i>Cash flow from financing activities</i>	
Pay-off plus interest	(77,875.00)
...	
	(77,875.00)
Total cash flow	1,604,125.00

Exhibit 2: Cash flow statement

In order to check the results we prepare a Cash/Bank account:

D		Cash/Bank		C
REV	4,140,000.00	COM	1,558,000.00	
		Int	7,875.00	
		P-o	70,000.00	
		ADM	900,000.00	
		c/d	1,604,125.00	
	<u>4,140,000.00</u>		<u>4,140,000.00</u>	
b/d	1,604,125.00			

Exhibit 3: Account Cash/Bank