

Task A10.42: Exercise on Cash Flows

DISA (Pty) Ltd. is a South African trader for face masks. The company is established on 30.06.20X4 by a share issue of 1,000,000 ordinary shares at 1.00 ZAR/s. The company takes a bank loan (annuity) at 500,000.00 ZAR which has an annual rate of interest of 6.5 %/a and an annual annuity of 10.0 %/a. The annuity is paid per rate meaning half of the annual amount in 20X4. The company pays rent for the shop commencing on 1.10.20X4. The monthly rent is 10,000.00 ZAR/m and is due one month in advance. The expenses for rent increase from 1.07.20X5 onwards by 10%. Rent is not subjected to VAT.

DISA (Pty) Ltd. buys in 20X4 5X,000 face masks at 35.00 ZAR/u cost of purchase. Sales commences in 20X5. During 20X5, DISA (Pty) Ltd. buys further 250,000 masks at 4Y.00 ZAR/u cost of purchase. All purchaseses are paid to an extent of 80 % in the period of purchase and the remainder in the next following one. During 20X5, the company sells 270,000 face masks at 100.00 ZAR/u net selling price. All sales are on cash. Apply First-In-First-Out method for all inventory movements.

The operational expenses of the company are amounting to 10,000,000.00 ZAR/a commencing on 1.01.20X5. The operational expenses are relavant for VAT.

Required: Prepare an income statement and a statement of cash flows according to the reconciliation method for 20X5.