

**Task IM-10.27: Preparing a Statement of Cash Flows, Reconciliation Method**

NELSKOP (Pty) Ltd. is a trading business in Australia. The company prepared the trial balance as below that discloses a gross profit of 615,000.00 AUD:

D		Trading account-20X7		C
OV	70,000.00	REV	1,200,000.00	
PUR	630,000.00	INV	100,000.00	
c/d	615,000.00	R.O.	15,000.00	
	<u>1,315,000.00</u>		<u>1,315,000.00</u>	
		b/d	615,000.00	

**Exhibit 1:** Trading account

From the Accountant you learn:

- (1) Only 73 % of the proceeds are on cash. The remainder is sales on credit.
- (2) For the return outwards NELSKOP (Pty) Ltd. received a voucher – no cash yet.
- (3) NELSKOP (Pty) Ltd. depreciates its items of P, P, E to the extent of 85,000.00 AUD.
- (4) For rent, NELSKOP (Pty) Ltd. is charged 1,200.00 AUD/m for the first 6 months of the year. Later rent increases to 1,500.00 AUD/m. Rent is paid 2 months in advance.
- (5) NELSKOP (Pty) Ltd. had to throw away perishable inventory to an extent of 35,000.00 AUD (They did before stock taking).
- (6) Labour at NELSKOP (Pty) Ltd. is 140,000.00 AUD/a. Labour is paid in the month it is for.
- (7) In 20X7, NELSKOP (Pty) Ltd. sold items of property, plant and equipment bought in 20X5 worth (carrying amount at time of transaction) 56,000.00 AUD at a gross selling price of 72,000.00 AUD.
- (8) From bonds, NELSKOP (Pty) Ltd. earned an interest of 12,000.00 AUD which is paid in 20X8.
- (9) For a bank loan, NELSKOP (Pty) Ltd. paid interest and pay-off to an extent of 8,000.00 AUD. 1 quarter thereof is for interest.

**Required: Prepare an income statement and determine NELSKOP (Pty) Ltd.'s operating cash flow via reconciliation. Start with earnings after taxation! Consider NELSKOP (Pty) Ltd. being registered for VAT reduction. There is no VAT to be considered for rent.**

NELSKOP (Pty) Ltd. ist ein australisches Handelsunternehmen. Das Unternehmen hat die untenstehende Trial Balance bereits ausgewiesen und errechnet einen Rohertrag von 615.000,00 AUD.

Trading account-20X7			
D			C
OV	70,000.00	REV	1,200,000.00
PUR	630,000.00	INV	100,000.00
c/d	615,000.00	R.O.	15,000.00
	<u>1,315,000.00</u>		<u>1,315,000.00</u>
		b/d	615,000.00

Exhibit 1: Trading account

Vom Rechnungswesen erfahren Sie:

- (1) Nur 73 % der Umsätze sind bar. Der Rest sind Verkäufe auf Ziel.
- (2) Für die Rücksendung erhält NELSKOP (Pty) Ltd. eine Gutschrift – bisher noch keine Zahlung.
- (3) NELSKOP (Pty) Ltd. nimmt Abschreibungen auf das Anlagevermögen in Höhe von 85.000,00 AUD vor.
- (4) Als Mietaufwand fallen für NELSKOP (Pty) Ltd. 1.200,00 AUD/m während der ersten 6 Monate an. Später steigt die Miete auf 1.500,00 AUD/m. Miete wird 2 Monate im Voraus bezahlt.
- (5) NELSKOP (Pty) Ltd. hat verderbliche Waren i.H.v. 35.000,00 AUD entsorgt (vor Inventur).
- (6) Der Lohnaufwand bei NELSKOP (Pty) Ltd. beträgt 140.000,00 AUD/a. Löhne werden in dem Monat bezahlt, für den sie sind.
- (7) In 20X7 verkauft NELSKOP (Pty) Ltd. Gegenstände des Anlagevermögens die in 20X5 angeschafft wurden und einen Wert von 56.000,00 AUD (Buchwert) haben zu einem Bruttopreis von 72.000,00 AUD.
- (8) Aus dem Besitz von Anleihen erwirtschaftet NELSKOP (Pty) Ltd. einen Zinsertrag von 12.000,00 AUD der in 20X8 bezahlt wird.
- (9) Für ein Bankdarlehen zahlt NELSKOP (Pty) Ltd. Zins und Tilgung i.H.v. 8.000,00 AUD. Ein Viertel davon ist Zinsaufwand.

**Gefragt:** Erstellen Sie eine Gewinn- und Verlustrechnung und bestimmen Sie den operativen Cash Flow durch eine Überleitungsrechnung. Starten Sie die Berechnung mit dem Ergebnis nach Steuern. Sie müssen berücksichtigen, dass NELSKOP (Pty) Ltd. vorsteuerabzugsberechtigt ist. Es fällt aber keine Umsatzsteuer für Miete an.

**Solution, based on the items of text:**

Profit calculation:

- (1) n/a
- (2) n/a
- (3) Depreciation equals to 85,000.00 AUD
- (4) Rent is amounting to:  $6 \times 1,200 + 6 \times 1,500 = 16,200.00$  AUD.
- (5) Waste is considered with the closing stock already.
- (6) Labour is 140,000.00 AUD.

(7) The profit on disposal of assets is:  $72,000/120\% - 56,000 = 4,000.00$  AUD.

(8) Interest earned is other comprehensive income.

(9) Interest is  $8,000/4 = 2,000.00$  AUD.

Trading account-20X7			Profit and Loss-20X7		
D		C	D		C
OV	70,000.00	REV	1,200,000.00	T/A	615,000.00
PUR	630,000.00	INV	100,000.00	PoD	4,000.00
c/d	615,000.00	R.O.	15,000.00	INT	12,000.00
	<u>1,315,000.00</u>		<u>1,315,000.00</u>		
P&L	615,000.00	b/d	615,000.00		
			DPR	85,000.00	
			RNT	16,200.00	
			LAB	140,000.00	
			INT	2,000.00	
			EBT	387,800.00	
				<u>631,000.00</u>	<u>631,000.00</u>
			ITL	116,340.00	b/d
			R/E	271,460.00	387,800.00

Exhibit 1: Accounts

**Nelskop (Pty) Ltd.'s**  
**STATEMENT of PROFIT & LOSS**  
**and OTHER COMPREHENSIVE INCOME**  
**for the year ended 31.12.20X7**

	[AUD]
Revenue	1,200,000.00
Other income	16,000.00
	<u>1,216,000.00</u>
Materials	(585,000.00)
Labour	(140,000.00)
Depreciation	(85,000.00)
Other expenses	(16,200.00)
<b>Earnings before int. &amp; taxes (EBIT)</b>	<u>389,800.00</u>
Interest	(2,000.00)
<b>Earnings before taxes (EBT)</b>	<u>387,800.00</u>
Income tax expenses	(116,340.00)
Deferred taxes	
<b>Earnings after taxes (EAT)</b>	<u>271,460.00</u>

Exhibit 2: Income statement

Cash flow calculation:

ad (1) 73 % of the proceeds are on cash only. The remaining are sales on credit.

The increase of payables is amounting to:  $1,200,000 \times 120\% \times (1 - 73\%) = 388,800.00$  AUD. It is a decrease of operating cash flow in the A/R section.

ad (2) For the return outwards NELSKOP (Pty) Ltd. received a voucher.

The Returns Outwards account registers the net amount. The gross amount is  $15,000 \times 120\% = \mathbf{18,000.00 \text{ AUD}}$ . The amount an increase in receivables and considered a negative cash flow.

ad (3) NELSKOP (Pty) Ltd. depreciates its items of P, P, E to the extent of 85,000.00 AUD.

Depreciation is added to the cash flow from operating activities.

ad (4) For rent NELSKOP (Pty) Ltd. is charged 1,200.00 AUD/m for the first 6 months of the year. Later rent increases to 1,500.00 AUD/m. Rent is paid 2 months in advance.

The prepayment is amounting to  $2 \times 1,500 = \mathbf{3,000.00 \text{ AUD}}$ . It counts as a negative cash flow from operating activities and is recorded as A/R. At the beginning of the year, the prepaid expenses of  $2 \times 1,200 = \mathbf{2,400.00 \text{ AUD}}$  were dissolved. This is a reduction of prepaid expenses and recorded as positive operating cash flow.

ad (5) NELSKOP (Pty) Ltd. had to throw away perishable inventory to an extent of 35,000.00 AUD (before taking stock).

n/a for cash flow

ad (6) Labour at NELSKOP (Pty) Ltd. is 140,000.00 AUD/a. Labour is paid during the month it is for.

No adjustment relevant.

ad (7) In 20X7, NELSKOP (Pty) Ltd. sold items of property, plant and equipment bought in 20X5 worth 56,000.00 AUD at a gross selling price of 72,000.00 AUD.

The item of P, P, E was not paid in 20X7. It is a liquidation of assets to the extent of 72,000.00 AUD and considered a positive cash flow from investments.

ad (8) From bonds, NELSKOP (Pty) Ltd. earned an interest of 12,000.00 AUD which is paid in 20X8.

It is financing cash flow and is cancelled out for operating cash flow and added to financing cash flow.

ad (9) For a bank loan, NELSKOP (Pty) Ltd. paid interest and pay-off to an extent of 8,000.00 AUD. 1 quarter thereof is interest.

Interest is cleared in the operating cash flow and the total annuity is recorded as negative financial cash flow.

- Income tax expenses are added to the operating cash flow to the extent of 116,340.00 AUD.

- Inventories change to the extent of:  $100,000 - 70,000 = \mathbf{30,000.00 \text{ AUD}}$ .

- For VAT calculation we prepare a VAT account, see below. Right to the VAT account the Cash/Bank account is displayed which does not belong to the solution but is for cross checking of results purpose.

D		VAT	C	D		Cash/Bank	C
PUR	126,000.00	REV	240,000.00	REV	1,051,200.00	PUR	756,000.00
		R.O.	3,000.00	INT	12,000.00	RNT	16,800.00
		DIS	<del>12,000.00</del>	DIS	72,000.00	LAB	140,000.00
						INT	2,000.00
						P-o	6,000.00
						c/d	214,400.00
					<u>1,135,200.00</u>		<u>1,135,200.00</u>
				b/d	214,400.00		

Exhibit 3: VAT and Cash/Bank account

Nelskop (Pty) Ltd.'s STATEMENT of CASH FLOWS for the period ended 31.12.20X7		
	[AUD]	[AUD]
<i>Cash flow from operating activities</i>		
EAT	271,460.00	
add Interest paid	2,000.00	
less Coupon received	(12,000.00)	
add Depreciation	85,000.00	
Profit on disposal	(4,000.00)	
	<u>342,460.00</u>	
<i>changes in working capital</i>		
changes in A/R	(407,400.00)	
changes in inventory	(30,000.00)	
changes in A/P	0.00	
changes in income tax expenses	116,340.00	
changes in VAT/r only materials	(126,000.00)	
changes in VAT/p	<u>243,000.00</u>	
		<u>138,400.00</u>
<i>Cash flow from investing activities</i>		
Investments	<u>72,000.00</u>	
		<u>72,000.00</u>
<i>Cash flow from financing activities</i>		
Coupon received	12,000.00	
Pay-off plus interest	<u>(8,000.00)</u>	
		<u>4,000.00</u>
<b>Total cash flow</b>		<u><u>214,400.00</u></u>

Exhibit 4: Reconciliation statement