

**Task A10.45: Preparing a Statement of Cash Flows, Reconciliation Method**

DeWAAL (Pty) Ltd. is a fish&chips restaurant at the Atlantic coastline of South Africa. The company is registered for VAT reduction. The company records the business activities below during 20X7:

- (1) DeWAAL (Pty) Ltd. sells 84,000 dishes (always fish&chips), every month an equal amount. The net selling price per dish is 150.00 ZAR. The restaurant accepts credit cards which means 40 % of the dishes are sold on cash and 60 % by card. Payment by credit card leads to a payment one month later.
- (2) At the beginning of the Accounting period 20X7, there are no inventories. As at 31.12.20X7, DeWAAL (Pty) Ltd. takes inventory and records a closing stock of 50,000.00 ZAR in deep-frozen chips.
- (3) Labour is amounting to 3,000,000.00 ZAR/a and paid during the Accounting period it is for.
- (4) Depreciation on the deep fryers is 750,000.00 ZAR/a.
- (5) Material expenses for deep frozen fish and deep-frozen chips are 2,850,000.00 ZAR (together). The materials are paid to an extent of 65 % instantly, the remainder in 20X8.
- (6) In 20X7, DeWAAL (Pty) Ltd. buys new deep fryers at cost of acquisition of 3,000,000.00 ZAR. The old ones were carried at 500,000.00 ZAR are sold at 600,000.00 net selling price to a competitor. The cost of acquisition of the old deep fryers were 1,300,000.00 ZAR. DeWAAL (Pty) Ltd. pays the deep-frying machines to an extent of 50 %, the remainder in 20X8. The buyer of the old deep fryers pays on cash.
- (7) From holding shares of McDonald's Corp., DeWAAL receives a dividend income of 400,000.00 ZAR on 30.06.20X7.
- (8) For the restaurant building, DeWAAL (Pty) Ltd. pays 25,000.00 ZAR/m. The rent is to be paid 2 months in advance. So, it was in 20X6 for January/February 20X7. From 1.07.20X8, rent expenses increase by 20 %. Rent is not VATable.

**Required: Prepare an income statement and determine DeWAAL (Pty) Ltd.'s operating cash flow via reconciliation. Start with earnings after taxation! Determine further cash flow directly.**

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

Profit calculation:

- (1) Revenue is recorded as below. The receivables are for December sales to an extent of  $120\% \times (84,000 \times 150/12) \times 60\% = 756,000.00$  ZAR. Cash is:  $(12,600,000 + 2,520,000) - 756,000 = 14,364,000.00$  ZAR.

<b>DR Cash/Bank</b>	<b>14,364,000.00 ZAR</b>
<b>DR Accounts Receivables</b>	<b>756,000.00 ZAR</b>
<b>CR VAT</b>	<b>2,520,000.00 ZAR</b>
<b>CR Revenue</b>	<b>12,600,000.00 ZAR</b>

- (2) n/a.

- (3) Payment of labour:

<b>DR Labour</b> .....	3,000,000.00	ZAR
<b>CR Cash/Bank</b> .....	3,000,000.00	ZAR

(4).Depreciation is 750,000.00 ZAR.

(5).Materials are recorded as below:

<b>DR Purchases</b> .....	2,900,000.00	ZAR
<b>DR VAT</b> .....	580,000.00	ZAR
<b>CR Cash/Bank</b> .....	2,262,000.00	ZAR
<b>CR Accounts Payables</b> .....	1,218,000.00	ZAR

(6).Acquisition of the new deep fryers:

<b>DR P, P, E</b> .....	3,000,000.00	ZAR
<b>DR VAT</b> .....	600,000.00	ZAR
<b>CR Cash/Bank</b> .....	1,800,000.00	ZAR
<b>CR Accounts Payables</b> .....	1,800,000.00	ZAR

Selling the old deep fryers is recorded below:

<b>DR Acc Depr</b> .....	800,000.00	ZAR
<b>DR Cash/Bank</b> .....	720,000.00	ZAR
<b>CR P, P, E</b> .....	1,300,000.00	ZAR
<b>CR VAT</b> .....	120,000.00	ZAR
<b>CR Profit on Disposal</b> .....	100,000.00	ZAR

(7).Interest income is 400,000.00 ZAR.

(8) Rent is amounting to  $6 \times 25,000 + 6 \times 30,000 = 330,000.00$  ZAR.

The Bookkeeping entry for rent is:

<b>DR Rent</b> .....	280,000.00	ZAR
<b>DR Prepaid Expenses</b> .....	60,000.00	ZAR
<b>CR Cash/Bank</b> .....	340,000.00	ZAR

**DeWaal (Pty) Ltd.'s  
STATEMENT of PROFIT & LOSS  
and OTHER COMPREHENSIVE INCOME  
for the year ended 31.12.20X8**

	[EUR]
Revenue	12,600,000.00
POD, interest income	500,000.00
	<u>13,100,000.00</u>
Materials	(2,850,000.00)
Labour	(3,000,000.00)
Depreciation	(750,000.00)
Other expenses	(330,000.00)
<b>Earnings before int. &amp; taxes (EBIT)</b>	<u>6,170,000.00</u>
Interest	
<b>Earnings before taxes (EBT)</b>	<u>6,170,000.00</u>
Income tax expenses	(1,851,000.00)
Deferred taxes	
<b>Earnings after taxes (EAT)</b>	<u>4,319,000.00</u>

**Exhibit 1:** Income statement (20X8)

For the cash flow the below amounts are relevant:

- (1) Increase of A/R to the extent of 756,000.00 ZAR (neg. cash flow), Increase of VAT/p to the extent of 2,520,000.00 ZAR.
- (2) Increase of inventories 50,000.00 ZAR
- (3) n/a
- (4) Add depreciation to the extent of 750,000.00 ZAR to profit
- (5) Deduct 580,000.00 ZAR for VAT/r from purchases. Add for increases of the payables 1,218,000.00 ZAR.
- (6) Payment of 1,800,000.00 ZAR for acquisition, receiving 720,000.00 ZAR from the disposal
- (7) Interest received is to be deducted from profit: 400,000.00 ZAR
- (8) Increases of prepaid expenses: 60,000 – 50,000 = **10,000.00 ZAR**.

**DeWaal Plc's**  
**STATEMENT of CASH FLOWS**  
**for the period ended 31.12.20X8**

	[GBP]	[GBP]
<i>Cash flow from operating activities</i>		
EAT	4,319,000.00	
less interest received	(400,000.00)	
add depreciation	750,000.00	
less profit on disposal (CFiA)	(100,000.00)	
	<u>4,569,000.00</u>	
<i>changes in working capital</i>		
changes in A/R and prepaid exp.	(766,000.00)	
changes in inventory	(50,000.00)	
changes in A/P, ITL	3,069,000.00	
changes in VAT/r only materials	(580,000.00)	
changes in VAT/p	<u>2,520,000.00</u>	
		<u>8,762,000.00</u>
<i>Cash flow from investing activities</i>		
Investments	(1,800,000.00)	
Disposal	<u>720,000.00</u>	
		<u>(1,080,000.00)</u>
<i>Cash flow from financing activities</i>		
Interest received	<u>400,000.00</u>	
		<u>400,000.00</u>
<b>Total cash flow</b>		<u><u>8,082,000.00</u></u>

**Exhibit 2:** Statement of cash flows

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

D	Cash/Bank	C
OV . . .	LAB 3,000,000.00	
PRO 14,364,000.00	PUR 2,262,000.00	
POD 720,000.00	ACQ 1,800,000.00	
INT 400,000.00	RNT 340,000.00	
	c/d 8,082,000.00	
<u>15,484,000.00</u>	<u>15,484,000.00</u>	
b/d 8,082,000.00		

**Exhibit 3:** Cash/Bank account