

Aufgabe QR-10.5: Statement of Cash Flows via Reconciliation

(Bestimmung der Kapitalflußrechnung über Überleitungsrechnung)

WENNEBOSTEL Ltd. is a production firm in the furniture business. It produces tables and cupboards. The business recorded for 20X7 the expenses below (no VAT to be considered):

- (1) Materials 200,000.00 EUR, paid 50% the remaining amount is due next year.
- (2) Labour 340,000.00 EUR, paid fully inclusive social security contribution and taxation.
- (3) Supervisor's salary 135,000.00 EUR, paid fully
- (4) Overheads (fully applied) 420,000.00 EUR, paid fully
- (5) Admin and selling overheads 330,000.00 EUR, paid fully
- (6) Interest 40,000.00 EUR, paid fully

WENNEBOSTEL Ltd. has no opening values in inventories and all expenses are linked to the furniture production and represent admin/selling expenses. As at the end of the accounting period there are still 10% of the furniture produced on stock (finished goods inventory account)

The amount for sales was 1,900,000.00 EUR. Determine profit after taxes and assume taxes will be paid in 20X8.

Required: Determine 20X7 cash flow from operating activities by reconciliation statement.

Lösung: (Solution)

The reconciliation statement requires to prepare an income statement or an P&L account. The income statement requires the calculation of cost of sales and FG-inventory (see chapter 9 in the text book): Cost of manufacturing is: $200,000 + 340,000 + 135,000 + 420,000 = 1,095,000.00 \text{ EUR}$. FG-inventory closing stock is $10\% \cdot 1,095,000 = 109,500.00 \text{ EUR}$. Cost of sales are $90\% \cdot 1,095,000 = 985,500.00 \text{ EUR}$. Accordingly the P&L-account looks like below:

D		P&L-Account		C	
20X7	[EUR]	20X7	[EUR]		
CoS	985.500,00	Sales	1.900.000,00		
Admin	330.000,00				
Interest	40.000,00				
NP (c/d)	544.500,00				
	<u>1.900.000,00</u>		<u>1.900.000,00</u>		
TaxL	163.350,00		544.500,00		
R/E	381.150,00				
	<u>544.500,00</u>		<u>544.500,00</u>		

Exhibit 1: Profit and Loss account

The reconciliation requires the computation of changes in the working capital. It is an increase of accounts payable to be 100,000.00 EUR. There an increase of inventories, see above: 109,500.00 EUR. See the reconciliation statement below:

Wennebostel AG's RECONCILIATION of EARNINGS before TAXATION with CFoA for year ended 31.12.20X7	
Profit for the period	544.500,00
add: depreciation	0,00
	<u>544.500,00</u>
Finance payments	40.000,00
	<u>584.500,00</u>
Changes in working capital	
(1) Changes in A/R	
(2) Changes in inventory	(109.500,00)
(3) Changes in A/P	100.000,00
	<u>575.000,00</u>
Changes in VAT	
(1) VAT receivable	0,00
(2) VAT payable	0,00
	<u>575.000,00</u>

Exhibit 2: Reconciliation statement

In order to check the total operating cash flow compute the payments (not required): $1,900,000 - 100,000 - 340,000 - 135,000 - 420,000 - 330,000 = 575,000.00 \text{ EUR}$. Income tax has not been paid yet.