

Aufgabe QR-13.3: Financial Statements – Equity Section

(Jahresabschluss – Eigenkapitalbereich)

Online shop WOODBRIDGE Ltd. is based on 100,000 shares 1.00 EUR each. Additionally, WOODBRIDGE issued 100,000 preference shares 0.10 EUR each at an issue price 1.35 EUR/share in 20X4. The preference shares are non-redeemable and come with a preference dividend to be 15 % of their face value per year.

At the end of fiscal year 20X6 the total reserves account contains 500,000.00 EUR. There is no profit/loss to be carried forward. There is no opening value for the VAT account either.

WOODBRIDGE displays an inventory 200,000 books bought at 5.10 EUR (net amount) and purchased in 20X7:

- 300,000 books 5.60 EUR/book (net amount)
- 100,000 MP3 players at 25.00 EUR/MP3-player (net amount)
- 150,000 cell phones at 110.00 EUR/phone. (net amount)

The business concept is to send the goods to the customers for 4.80 EUR/good (net amount). Consider VAT for transport expenses. The selling price is 12.00 EUR/book (gross amount), 54.00 EUR/MP3-player (gross amount) and 240.00 EUR/cell phone (gross amount). In 20X7 WOODBRIDGE sold 487,000 books, 98,500 MP3-players, and 145,000 cell phones. The accounting for inventory follows a periodic system. The valuation is along the weighted average method.

Cost for administration and advertising was 2,500,000.00 EUR (no VAT). Depreciation on the storage room was 800,000.00 EUR. Consider the transport expenses as part of cost of sales.

In order to finance a new branch WOODBRIDGE issued 500,000 ordinary shares (1.00 EUR) at an issue price 4.60 EUR/share on 1.10.20X7.

The appropriation of profit is 90% to reserves and 10% dividend to all (!) shareholders.

Required: For 20X7 set up a statement of comprehensive income along the C.O.S.-method, provide the equity section of the statement of financial position, and the statement of changes in equity. Consider VAT. Ignore para 58 and 150 of German Companies Act. Taxes and dividends are to be paid in 20X8. No comprehensive information required.

Lösung (Solution):

The bookkeeping entries relevant are displayed below:

(1) Purchase of books

DR Purchase	1,680,000.00 EUR
DR VAT	336,000.00 EUR
CR Bank	2,016,000.00 EUR

(2) Purchase of MP3

DR Purchase	2,500,000.00 EUR
DR VAT	500,000.00 EUR
CR Bank	3,000,000.00 EUR

(3) Purchase of cell phones

DR Purchase	16,500,000.00 EUR
DR VAT	3,300,000.00 EUR
CR Bank	19,800,000.00 EUR

(4) The expenses for transport were in 20X7 $(487.000 + 98,500 \cdot 145,000) \cdot 4,80 = 3,506,400.00$ EUR.

DR Transport	3,506,400.00 EUR
DR VAT	701,280.00 EUR
CR Bank	4,207,680.00 EUR

(5) Sales of books $487,000 \cdot 12/1,2 = 4,870,000.00$ EUR.

DR Bank	5,844,000.00 EUR
CR VAT	974,000.00 EUR
CR Sales	4,870,000.00 EUR

(6) Sales of MP3-players $98,500 \cdot 54/1,2 = 4,432,500.00$ EUR.

DR Bank	5,319,000.00 EUR
CR VAT	886,500.00 EUR
CR Sales	4,432,500.00 EUR

(7) Sales of cell phones $145,000 \cdot 240/1,2 = 29,000,000.00$ EUR.

DR Bank	34,800,000.00 EUR
CR VAT	5,800,000.00 EUR
CR Sales	29,000,000.00 EUR

(8) Posting opening value for inventory and purchases to T/A:

DR T/A	1,020,000.00 EUR
CR Inventory	1,020,000.00 EUR
 DR T/A	 20,680,000.00 EUR
CR Purchase	20,680,000.00 EUR

(9) Closing stock of inventory $(500,000 - 487,000) \cdot ((200,000 \cdot 5.10 + 300,000 \cdot 5.60)/500,000) + (100,000 - 98,500) \cdot 25 + (150,000 - 145,000) \cdot 110 = 70,200 + 37,500 + 550,000 = \mathbf{657,700.00 \text{ EUR}}$.

DR Inventory	657,700.00 EUR
CR T/A	657,700.00 EUR

(10) Posting sales to T/A:

DR Sales	38,302,500.00 EUR
CR T/A	38,302,500.00 EUR

Observe the gross profit amounts to 17,260,200.00 EUR

(11) Share issue is $500,000 \cdot 4.60 = \mathbf{2,300,000.00 \text{ EUR}}$. The increase of (capital) reserves amounts to $(4.60 - 1) \cdot 500,000 = \mathbf{1,800,000.00 \text{ EUR}}$.

DR Bank	2,300,000.00 EUR
CR SCap	500,000.00 EUR
CR Reserves	1,800,000.00 EUR

For the task a distinction between capital reserves and earnings reserves is not required. For that reason there is only one reserves account to be displayed.

(12) Expenses for admin and advertisements

DR A&A	2,500,000.00 EUR
CR Bank	2,500,000.00 EUR

(13) Posting for depreciation

DR Depr.	800,000.00 EUR
CR Acc. Depr.	800,000.00 EUR

See accounts for the calculation of profit. Tax liabilities are $30\% \cdot 10,453,800 = \mathbf{3,136,140.00 \text{ EUR}}$. Retained earnings increases by $10,453,800 - 3,136,140 = \mathbf{7,317,660.00 \text{ EUR}}$. The amount for the preference dividend is $15\% \cdot 100,000 \cdot 0.10 = \mathbf{1,500.00 \text{ EUR}}$. The dividend declared to ordinary shareholders is $7,317,660 \cdot 10\% - 1,500 = \mathbf{730,266.00 \text{ EUR}}$. The increase of reserves (excluding capital reserves) amounts to $7,317,660 \cdot 90\% = \mathbf{6,585,894.00 \text{ EUR}}$.

D		Inventory	C	
OV	1.020.000,00	(8a)	1.020.000,00	
(9)	657.700,00	c/d	657.700,00	
	<u>1.677.700,00</u>		<u>1.677.700,00</u>	
b/d	657.700,00			

D		SCap	C	
		OV	100.000,00	
		OV	10.000,00	
c/d	610.000,00	(11)	500.000,00	
	<u>610.000,00</u>		<u>610.000,00</u>	
		b/d	610.000,00	

D		Reserves	C	
		OV	500.000,00	
		(11)	1.800.000,00	
c/d	8.885.894,00	R/E	6.585.894,00	
	<u>8.885.894,00</u>		<u>8.885.894,00</u>	
		b/d	8.885.894,00	

D		Purchase	C	
(1)	1.680.000,00	(8b)	20.680.000,00	
(2)	2.500.000,00			
(3)	16.500.000,00			
	<u>20.680.000,00</u>		<u>20.680.000,00</u>	

D		VAT	C	
(1)	336.000,00	(5)	974.000,00	
(2)	500.000,00	(6)	886.500,00	
(3)	3.300.000,00	(7)	5.800.000,00	
(4)	701.280,00			
c/d	2.823.220,00			
	<u>7.660.500,00</u>		<u>7.660.500,00</u>	
		b/d	2.823.220,00	

D		Bank	C	
OV	...	(1)	2.016.000,00	
(5)	5.884.000,00	(2)	3.000.000,00	
(6)	5.319.000,00	(3)	19.800.000,00	
(7)	34.800.000,00	(4)	4.207.680,00	
(11)	2.300.000,00	(12)	2.500.000,00	
		c/d	16.779.320,00	
	<u>48.303.000,00</u>		<u>48.303.000,00</u>	
b/d	16.779.320,00			

D		Transport	C	
(4)	3.506.400,00	P&L	3.506.400,00	

D		Sales	C	
(10)	38.302.500,00	(5)	4.870.000,00	
		(6)	4.432.500,00	
		(7)	29.000.000,00	
	<u>38.302.500,00</u>		<u>38.302.500,00</u>	

D		T/A	C	
(8a)	1.020.000,00	(9)	657.700,00	
(8b)	20.680.000,00	(10)	38.302.500,00	
GP	17.260.200,00			
	<u>21.700.000,00</u>		<u>38.960.200,00</u>	
P&L	17.260.200,00	GP	17.260.200,00	

D		A&A	C	
(12)	2.500.000,00	P&L	2.500.000,00	

D		Depr	C	
(13)	800.000,00	P&L	800.000,00	

D		Acc. Depr.	C	
c/d	800.000,00	(13)	800.000,00	
		b/d	800.000,00	

D		P&L	C	
Transp	3.506.400,00	T/A	17.260.200,00	
A&A	2.500.000,00			
Depr.	800.000,00			
EBT	10.453.800,00			
	<u>17.260.200,00</u>		<u>17.260.200,00</u>	
TaxL	3.136.140,00	EBT	10.453.800,00	
R/E	7.317.660,00			
	<u>10.453.800,00</u>		<u>10.453.800,00</u>	

D		TaxL	C	
c/d	3.136.140,00	P&L	3.136.140,00	
		b/d	3.136.140,00	

D		R/E	C	
SH4D	1.500,00	P&L	7.317.660,00	
SH4D	730.266,00			
Res	6.585.894,00			
	<u>7.317.660,00</u>		<u>7.317.660,00</u>	

D		SH4D	C	
		R/E	1.500,00	
c/d	730.266,00	R/E	730.266,00	
	<u>730.266,00</u>		<u>731.766,00</u>	
		b/d	730.266,00	

Exhibit 1: Accounts

The statement of comprehensive income along the cost-of-sales format requires the calculation of the cost for goods sold and transport expenses: $487.000 \cdot ((200.000 \cdot 5.10 + 300.000 \cdot 5.60)/500.000) + 98.500 \cdot 25 + 145.000 \cdot 110 + 3.506.400 = 24,548,700.00 \text{ EUR}$.

**Woodbrigde Ltd's
STATEMENT of COMPREHENSIVE INCOME
for year ended 31.12.20X7**

	20X7 [EUR]	20X6 [EUR]
Revenue	38.302.500,00	
Other income	0,00	
	<u>38.302.500,00</u>	
Cost of sales, incl. transport	(24.548.700,00)	
Advertising and administration	(2.500.000,00)	
Depreciation	(800.000,00)	
Profit before taxation (EBT)	10.453.800,00	
Income tax expenses	(3.136.140,00)	
Deferred tax income/expense		
Profit for the period (EAT)	<u>7.317.660,00</u>	
APPROPRIATE SECTION:		
Dividend to Preference Shareholders	1.500,00	
Dividend to Ordinary Shareholders	730.266,00	
Earnings Reserves	6.585.894,00	
Retained Earnings	0,00	
Appropriated Profit	<u>7.317.660,00</u>	

Exhibit 2: Statement of comprehensive income

**Woodbrige Ltd's
STATEMENT OF CHANGES IN EQUITY
for 20X7**

	Issued Capital	Total reserves	Retained Earnings	Total Shareholders' Equity
Equity as at 31.12.20X6	110.000,00	500.000,00	0,00	610.000,00
Ord. share issue, 500,000 shares	500.000,00	1.800.000,00		2.300.000,00
Profit 20X7			7.317.660,00	7.317.660,00
Preference dividend			(1.500,00)	(1.500,00)
Appropriation of Profit		6.585.894,00	(7.316.160,00)	(730.266,00)
Equity as at 31.12.20X7	610.000,00	8.885.894,00	0,00	9.495.894,00

Exhibit 3: Statement of changes in equity

**Woodbridge Ltd's
STATEMENT of FINANCIAL POSITION
as at 31.12.20X7**

	20X7	20X6
	[EUR]	[EUR]
[...]	[...]	[...]
Capital		
Issued capital	600.000,00	100.000,00
- 500,000 ordinary shares at 1.00 EUR each, at eoy 20X6 100,000 shares		
	10.000,00	10.000,00
- 100,000 preference shares 15% at 0.10 EUR each, at eoy 20X6 100,000		
Other reserves	8.885.894,00	500.000,00
Retained earnings	0,00	0,00
<i>Total of shareholder's equity</i>	<u>9.495.894,00</u>	<u>610.000,00</u>
Total equity and liabilities	<u><u> </u></u>	<u><u> </u></u>

Exhibit 4: Equity section of statement of