

Task IM-10.22: Statements of Cash Flows

RIETBERG Ltd. is an internet dealership for garden tools.

The business is established on 1.01.20X1 by a share issue of 250,000.00 EUR. On 2.01.20X1 RIETBERG Ltd. takes a bank loan of 200,000.00 EUR which is an annuity coming with a rate of interest of 3.5 % and an initial pay-off rate of 2.5 %. The annuity is due every yearend.

On 3.01.20X1 RIETBERG buys computer hardware for 30,000.00 EUR. Half of the amount thereof is to be paid in 20X2. Depreciation is along straight line method over a period of 4 years. The residual amount will be 10,000.00 EUR.

RIETBERG Ltd. buys goods from the suppliers for 350,000.00 EUR and sells 80 % thereof at a net selling price of 230 % of the cost of purchase. The customers pay to an extend of 95 %. The other 5 % are posted to receivables.

The payment to the shareholders as a dividend is a 50 % amount of the profit after taxes. The payment will occur in the next accounting period. You have to credit the amount to the accounts payables as they are a short term liability. The other portion goes to the Earnings Reserves account. Consider the total income tax rate being 30 %. Taxes are to be paid in the next accounting period.

Required: Prepare a statement of financial position after the appropriation of profit. Derive a statement of cash flows by the method along KÜTING based on the delta-balance sheet. Assume the opening balance sheet being just zero (no amounts). § 150 AktG doesn't apply. Ignore VAT. Consider IAS 1 with regard to the distinction of short-term and long-term liabilities. However you do not have to discount long-term liabilities.

Solution

(1) Issue of shares

DR Cash/Bank	250,000.00 EUR
CR Share Capital	250,000.00 EUR

(2) Taking the bank loan of 200,000.00 EUR

DR Cash/Bank	200,000.00 EUR
CR Interest Bearing Liab.	200,000.00 EUR

(3) Payment of interest $3.5 \% \times 200,000 = 7,000.00$ EUR.

DR Interest	7,000.00 EUR
CR Cash/Bank	7,000.00 EUR

(4) Pay-off of the bank loan in 20X1: $2.5 \% \times 200,000 = 5,000.00$ EUR. Note, the annuity amounts to $7,000 + 5,000 = 12,000.00$ EUR.

DR Interest Bearing Liab	5,000.00 EUR
CR Cash/Bank	5,000.00 EUR

(5) Transfer of next year's pay-off amount to short-term liabilities. The amount is $12,000 - 3.5\% \times (200,000 - 5,000) = 5,175.00$ EUR.

DR Interest Bearing Liab.	5,175.00 EUR
CR Short-term Liab. (A/P)	5,175.00 EUR

(6) Acquisition of computer hardware at 30,000.00 EUR.

DR P, P, E	30,000.00 EUR
CR Cash/Bank	15,000.00 EUR
CR A/P	15,000.00 EUR

(7) Depreciation on computers $(30,000 - 10,000)/4 = 5,000.00$ EUR.

DR Depreciation	5,000.00 EUR
CR Acc. Depr.	5,000.00 EUR

(8) Purchase of goods. RIETBERG AG applies a periodic inventory system in order to keep the bookkeeping entries low.

DR Purchase	350,000.00 EUR
CR Cash/Bank	350,000.00 EUR

(9) Sales of the goods at 230 % of their purchase costs: $350,000 \times 80\% \times 2.3 = 644,000.00$ EUR. 95 % of sales with regard to the value are on cash: $95\% \times 644,000 = 611,800.00$ EUR.

DR Cash/Bank	611,800.00 EUR
DR Accounts Receivables	32,200.00 EUR
CR Revenue	644,000.00 EUR

Observe the profit calculation in exhibit 1:

D		Cash/Bank	C	D		Issued capital	C
(1)	250,000.00	(3)	7,000.00	c/d	250,000.00	(1)	250,000.00
(2)	200,000.00	(4)	5,000.00			b/d	250,000.00
(9)	611,800.00	(6)	15,000.00				
		(8)	350,000.00				
		c/d	684,800.00				
	<u>1,061,800.00</u>		<u>1,061,800.00</u>				
b/d	684,800.00						

Exhibit 1: Accounts

Interest bearing liabilities			
D		C	
(4)	5,000.00	(2)	200,000.00
(5)	5,175.00		
c/d	189,825.00		
	<u>200,000.00</u>		<u>200,000.00</u>
		b/d	189,825.00

Interest			
D		C	
(3)	7,000.00	P&L	7,000.00
	<u>7,000.00</u>		

Short-term liabilities (A/P)			
D		C	
		(5)	5,175.00
c/d	20,175.00	(6)	15,000.00
	<u>20,175.00</u>		<u>20,175.00</u>
		b/d	20,175.00
c/d	143,375.00	A/P	123,200.00
	<u>143,375.00</u>		<u>143,375.00</u>
		b/d	143,375.00

P, P, E			
D		C	
(6)	30,000.00	c/d	30,000.00
b/d	30,000.00		<u>30,000.00</u>

Depreciation			
D		C	
(7)	5,000.00	c/d	5,000.00
b/d	5,000.00		<u>5,000.00</u>

Acc depreciation			
D		C	
c/d	5,000.00	(7)	5,000.00
	<u>5,000.00</u>	b/d	5,000.00

Purchase			
D		C	
(8)	350,000.00	P&L	350,000.00
	<u>350,000.00</u>		

Inventory			
D		C	
cl stock	70,000.00	c/d	70,000.00
b/d	70,000.00		<u>70,000.00</u>

A/R			
D		C	
(9)	32,200.00	c/d	32,200.00
b/d	32,200.00		<u>32,200.00</u>

Revenue			
D		C	
P&L	644,000.00	(9)	644,000.00
	<u>644,000.00</u>		<u>644,000.00</u>

ITL			
D		C	
c/d	105,600.00	P&L	105,600.00
	<u>105,600.00</u>	b/d	105,600.00

P&L account			
D		C	
Purch	350,000.00	Rev	644,000.00
Int	7,000.00	cl stock	70,000.00
Depr	5,000.00		
EBTc/d	352,000.00		
	<u>714,000.00</u>		<u>714,000.00</u>
ITL	105,600.00	b/d	352,000.00
R/E	246,400.00		
	<u>352,000.00</u>		<u>352,000.00</u>

R/E			
D		C	
A/P	123,200.00	P&L	246,400.00
Res	123,200.00		
	<u>246,400.00</u>		<u>246,400.00</u>

Reserves			
D		C	
c/d	123,200.00	Res	123,200.00
	<u>123,200.00</u>	b/d	123,200.00

Exhibit 1: Accounts (continued)

Observe the statement of financial position as below:

**RIETBERG AG's
STATEMENT of FINANCIAL POSITION**

A		as at 31.12.20X1		C, L	
<i>Non-current assets</i>		[EUR]		<i>Owners' capital</i>	[EUR]
P, P, E	25,000.00			Share capital	250,000.00
Intangibles				Reserves	123,200.00
Financial assets				R/E	0.00
<i>Current assets</i>				<i>Liabilities</i>	
Inventory	70,000.00			Interest bear liab	189,825.00
A/R	32,200.00			A/P	143,375.00
Prepaid expenses				Provisions	
Cash/Bank	684,800.00			Tax liabilities	105,600.00
		812,000.00			812,000.00

Exhibit 2: Statement of financial position

The delta balance sheet and the derivation of the cash flow statement is given by exhibit 3. The numbers at the side give you an indication about the sequence of adjustments:

D		Delta-B/S		C	
¹ PPE	25,000.00	SCap	250,000.00	^{fin}	
⁴ Inv	70,000.00	Res	123,200.00	²	
⁷ A/R	32,200.00	IBL	189,825.00	^{fin}	
tot C/B	684,800.00	A/P	143,375.00		
		Tax liab	105,600.00	⁶	
	<u>812,000.00</u>		<u>812,000.00</u>		
inv Acq	30,000.00	Depr	5,000.00	⁵	
	<u>817,000.00</u>		<u>817,000.00</u>		
		EAT	246,400.00	³	
		A/P	20,175.00	⁸	
	<u>817,000.00</u>		<u>817,000.00</u>		
⁸ Purch	350,000.00	Rev	644,000.00	⁷	
^{fin} Int	7,000.00	cl stock	70,000.00	⁴	
⁵ Depr	5,000.00				
⁶ ITL	105,600.00				
	<u>1,104,000.00</u>		<u>1,104,000.00</u>		
Purch	329,825.00	Rev	611,800.00		
	<u>1,051,625.00</u>		<u>1,051,625.00</u>		

Exhibit 3: Delta balance sheet

Note, the delta balance sheet cannot explain the origin of receivables/payables further. It is for sure these items cannot be cash except of the business is lending or taking money on short term. This is why the acquisition will be seen on cash and the payables assigned to operating activities, in particular as part of the purchases. The same applies for the sales and accounts receivables. The same applies for the bank loan. The derivation only gives the net amount of money lent.

See the cash flow statement below.

RIETBERG Ltd.'s STATEMENT of CASH FLOWS for the period ended 31.12.20X1		
<i>Cash flow from operating activities</i>		
Purchase	(329,825.00)	
Sales	611,800.00	
		281,975.00
<i>Cash flow from investing activities</i>		
Investments	(30,000.00)	
		(30,000.00)
<i>Cash flow from financing activities</i>		
Share issue	250,000.00	
Bank loan received	189,825.00	
Interest	(7,000.00)	
		432,825.00
		684,800.00

Exhibit 4: Statement of cash flows