

Task IM-10.26: Statements of Cash Flows

GEHRDEN Ltd. is a production firm for wallets. The company is established on 1.01.20X4 by a share issue of 100,000 shares at a face value of 1.00 EUR.

GEHRDEN Ltd. takes a bank loan of 150,000.00 EUR which requires a payment of interest being 4.5 %/a. The pay-off of the bank loan is 10,000.00 EUR every year. Payments take place at the end of each fiscal year.

Interest are non-manufacturing costs.

On 2.01.20X4 GEHRDEN Ltd. buys machines at a cost of acquisition of 120,000.00 EUR. The machines are depreciated by 20,000.00 EUR every year.

GEHRDEN Ltd. buys materials at a cost of purchase of 75,000.00 EUR every year and pays 60 % thereof. The remaining portion is paid in the following year. The materials are used up completely during the accounting periods.

The costs for production supervision are 260.000,00 EUR/a. The amount is not relevant for VAT. Labour amounts to 180,000.00 EUR per year.

In 20X4 GEHRDEN produces 50,000 wallets and sells 40,000.00 thereof at a net selling price being 25.00 EUR. In 20X5 GEHRDEN Ltd. produces 50,000 wallets and sells 55,000 units.

The appropriation of profit is at a 50 : 50 ratio. 50 % go to reserves and the other portion is dividend. Ignore § 150 AktG.

Required: Prepare a statement of cash flows by the direct method or by reconciliation for both Accounting periods.

GEHRDEN Ltd. ist ein Produktionsunternehmen für Portemonnais. Das Unternehmen wird am 1.01.20X4 mit der Ausgabe von 100.000 Aktien zu einem Nennbetrag von 1.00 EUR gegründet.

GEHRDEN Ltd. nimmt ein Bankdarlehen über 150.000,00 EUR auf, das eine Zinszahlung von 4,5 % erfordert. Die Tilgung des Bankdarlehens umfasst 10.000,00 EUR in jedem Jahr. Die Zahlungen finden jeweils zum Jahresende statt.

Zinsen sind keine Herstellungskosten.

GEHRDEN Ltd. kauft Maschinen zu Anschaffungskosten von 120.000,00 EUR am 2.01.20X4. Die Maschinen werden mit 20.000,00 EUR in jedem Jahr abgeschrieben.

GEHRDEN Ltd. kauft Material zu Anschaffungskosten von 75.000,00 EUR jedes Jahr und zahlt 60% davon. Der Rest wird im jeweils folgenden Jahr bezahlt. Das Material wird vollständig während der Abrechnungsperioden aufgebraucht.

Die Kosten für die Produktionsüberwachung sind 260.000.00 EUR/a. Löhne betragen 180.000,00 EUR pro Jahr.

In 20X4 produziert GEHRDEN Ltd. 50.000 Portemonnais und verkauft 40.000 davon zu einem Nettoverkaufspreis von 25,00 EUR. In 20X5 produziert GEHRDEN Ltd. 50.000 Portemonnais und verkauft 55.000 Stück ebenfalls zu 25,00 EUR.

Die Gewinnverwendung ist 50 : 50. 50 % des zur Ausschüttung verfügbaren Betrags gehen in die Rücklagen, der Rest ist Dividende. Ignorieren Sie § 150 AktG.

Gefragt: Erstellen Sie eine Kapitalflussrechnung über die direkte Methode oder die Überleitungsrechnung für beide Abrechnungszeiträume.

Solution

(1) Issue of capital on 1.01.20X4

DR Cash/Bank	100,000.00 EUR
CR Issued Capital	100,000.00 EUR

(2) Taking a bank loan 150,000.00 EUR

DR Cash/Bank	150,000.00 EUR
CR Interest Bearing Liabilities	150,000.00 EUR

(3) Payment of interest $4.5\% \times 150,000 = 6,750.00$ EUR

DR Interest 20X4	6,750.00 EUR
CR Cash/Bank	6,750.00 EUR

(4) Pay-off of the bank loan 10,000.00 EUR

DR Interest Bearing Liabilities	10,000.00 EUR
CR Cash/Bank	10,000.00 EUR

(5) Acquisition of machinery $120\% \times 120,000 = 144,000.00$ EUR

DR P, P, E	120,000.00 EUR
DR VAT	24,000.00 EUR
CR Cash/Bank	144,000.00 EUR

(6) Depreciation on machinery 20,000.00 EUR

DR Depreciation	20,000.00 EUR
CR Acc. Depr.	20,000.00 EUR

(7) Purchase of materials $120\% \times 75,000 = 90,000.00$ EUR

DR Purchase	75,000.00 EUR
DR VAT	15,000.00 EUR
CR A/P	36,000.00 EUR
CR Cash/Bank	54,000.00 EUR

(8) Administration expenses (labour) 260,000.00 EUR

DR Administration	260,000.00 EUR
CR Cash/Bank	260,000.00 EUR

(9) Labour 180,000.00 EUR

DR Labour	180,000.00 EUR
CR Cash/Bank	180,000.00 EUR

(10) Sales of 40,000 wallets at 25.00 EUR net selling price. Gross amount is $40,000 \times 25 \times 120\% = 1,200,000.00$ EUR.

DR Cash/Bank	1,200,000.00 EUR
CR VAT	200,000.00 EUR
CR Revenue	1,000,000.00 EUR

Observe the profit calculation in the exhibit 1. Consider the closing stock of wallets being $10,000 \times (20,000 + 75,000 + 260,000 + 180,000) / 50,000 = 107,000.00$ EUR.

D	Cash/Bank		C
(1)	100,000.00	(3)	6,750.00
(2)	150,000.00	(4)	10,000.00
(10)	1,200,000.00	(5)	144,000.00
		(7)	54,000.00
		(8)	260,000.00
		(9)	180,000.00
		c/d	795,250.00
	<u>1,450,000.00</u>		<u>1,450,000.00</u>
b/d	<u>795,250.00</u>		

D	Issued capital		C
c/d	<u>100,000.00</u>	(1)	<u>100,000.00</u>
		b/d	100,000.00

D	Interest bearing liabilities		C
(4)	10,000.00	(2)	150,000.00
c/d	140,000.00		
	<u>150,000.00</u>		<u>150,000.00</u>
		b/d	<u>140,000.00</u>

D	Interest 20X4		C
(3)	<u>6,750.00</u>	P&L	<u>6,750.00</u>

D	P, P, E		C
(5)	<u>120,000.00</u>	c/d	<u>120,000.00</u>
b/d	120,000.00		

D		VAT		C
(5)	24,000.00	(10)	200,000.00	
(7)	15,000.00			
c/d	161,000.00			
	<u>200,000.00</u>		<u>200,000.00</u>	
		b/d	161,000.00	

Exhibit 1: Accounts

Depreciation - 20X4			
D		C	
(6)	<u>20,000.00</u>	P&L	<u>20,000.00</u>

Acc depr			
D		C	
c/d	<u>20,000.00</u>	(6)	<u>20,000.00</u>
		b/d	<u>20,000.00</u>

Purchase - 20X4			
D		C	
(7)	<u>75,000.00</u>	P&L	<u>75,000.00</u>

Accounts payables			
D		C	
		(7)	<u>36,000.00</u>
c/d	<u>233,837.50</u>	A/P	<u>197,837.50</u>
			<u>233,837.50</u>
		b/d	<u>233,837.50</u>

Administration - 20X4			
D		C	
(8)	<u>260,000.00</u>	P&L	<u>260,000.00</u>

Labour - 20X4			
D		C	
(9)	<u>180,000.00</u>	P&L	<u>180,000.00</u>

Revenue - 20X4			
D		C	
P&L	<u>1,000,000.00</u>	(10)	<u>1,000,000.00</u>

Profit and Loss - 20X4			
D		C	
Purch	75,000.00	Rev	1,000,000.00
Depr	20,000.00	FG	107,000.00
Admin	260,000.00		
Labour	180,000.00		
Interest	6,750.00		
EBT	<u>565,250.00</u>		
	<u>1,107,000.00</u>		<u>1,107,000.00</u>
TL	169,575.00	b/d	<u>565,250.00</u>
R/E	<u>395,675.00</u>		
	<u>565,250.00</u>		<u>565,250.00</u>

Inventory of FG			
D		C	
FG	<u>107,000.00</u>	c/d	<u>107,000.00</u>
b/d	<u>107,000.00</u>		

Tax liabilities			
D		C	
c/d	<u>169,575.00</u>	P&L	<u>169,575.00</u>
		b/d	<u>169,575.00</u>

Retained earnings			
D		C	
A/P	197,837.50	P&L	395,675.00
Res	<u>197,837.50</u>		
	<u>395,675.00</u>		<u>395,675.00</u>

Reserves			
D		C	
		R/E	197,837.50

Exhibit 1: Accounts (continued)

GEHRDEN Ltd.'s
STATEMENT of COMPREHENSIVE INCOME
for the year ended 31.12.20X4

	[EUR]
Revenue	1,000,000.00
Other income	107,000.00
	<u>1,107,000.00</u>
Materials	75,000.00
Labour	180,000.00
Depreciation	20,000.00
Other expenses	260,000.00
Earnings before int and taxes (EBIT)	<u>572,000.00</u>
Interest	6,750.00
Earnings before taxes (EBT)	565,250.00
Income tax expenses	169,575.00
Deferred taxes	
Earnings after taxes (EAT)	395,675.00
to reserves (§ 150 AktG)	0.00
to other earnings reserves	197,837.50
to shareholders	197,837.50
carried forward to next period	0.00

Exhibit 2: GEHRDEN Ltd's income statement

Gehrden Ltd.'s
STATEMENT of FINANCIAL POSITION

A		as at 31.12.20X4		C, L	
<i>Non-current assets</i>		[EUR]		<i>Owners' capital</i>	
P, P, E	100,000.00			Share capital	100,000.00
Intangibles				Reserves	197,837.50
Financial assets				R/E	0.00
<i>Current assets</i>				<i>Liabilities</i>	
Inventory	107,000.00			Interest bear liab	140,000.00
A/R				A/P	394,837.50
Prepaid expenses				Provisions	
Cash/Bank	795,250.00			Tax liabilities	169,575.00
		1,002,250.00			1,002,250.00

Exhibit 3: GEHRDEN Ltd.'s statement of financial position

Observe the statement of cash flows below:

**Gehrden Ltd.'s
STATEMENT of CASH FLOWS
for the period ended 31.12.20X4**

<i>Cash flow from operating activities</i>		
Materials bought	(54,000.00)	
Sales	1,200,000.00	
Admin expenses	(260,000.00)	
Labour	(180,000.00)	
		706,000.00
<i>Cash flow from investing activities</i>		
Investments	(144,000.00)	
		(144,000.00)
<i>Cash flow from financing activities</i>		
Share issue	100,000.00	
Bank loan received	150,000.00	
Interest	(6,750.00)	
Pay-off	(10,000.00)	
		233,250.00
		795,250.00

Exhibit 4: GEHRDEN Ltd.'s statement of cash flows

**Gehrden Ltd's
RECONCILIATION of EARNINGS
before TAXATION with CFoA
for year ended 31.12.20X4**

Profit for the period	395,675.00
add: depreciation	20,000.00
	415,675.00
Finance payments	6,750.00
	422,425.00
Changes in working capital	
(1) Changes in A/R	
(2) Changes in inventory	(107,000.00)
(3) Changes in A/P	205,575.00
	521,000.00
Changes in VAT	
(1) VAT receivable	0.00
(2) VAT payable	185,000.00
	706,000.00

Exhibit 5: GEHRDEN Ltd.'s reconciliation statement

In the next accounting period GEHRDEN pays debts at first:

(A) Payment of income taxes

DR Tax Liabilities	169,575.00 EUR
CR Cash/Bank	169,575.00 EUR

(B) Payment of dividend

DR A/P	197,837.50 EUR
CR Cash/Bank	197,837.50 EUR

(C) Payment to suppliers 36,000.00 EUR

DR A/P	36,000.00 EUR
CR Cash/Bank	36,000.00 EUR

(D) Payment of VAT liabilities 161,000.00 EUR

DR VAT	161,000.00 EUR
CR Cash/Bank	161,000.00 EUR

(E) Payment of interest $4.5\% \times 140,000 = 6,300.00$ EUR.

DR Interest	6,300.00 EUR
CR Cash/Bank	6,300.00 EUR

(F) Pay-off of bank loan 10,000.00 EUR

DR Interest Bearing Liabilities	10,000.00 EUR
CR Cash/Bank	10,000.00 EUR

(G) Depreciation on machinery 20,000.00 EUR

DR Depreciation	20,000.00 EUR
CR Acc. Depr.	20,000.00 EUR

(H) Purchase of materials $120\% \times 75,000 = 90,000.00$ EUR

DR Purchase	75,000.00 EUR
DR VAT	15,000.00 EUR
CR A/P	54,000.00 EUR
CR Cash/Bank	36,000.00 EUR

(I) Administration expenses (labour) 260,000.00 EUR

DR Administration	260,000.00 EUR
CR Cash/Bank	260,000.00 EUR

(J) Labour 180,000.00 EUR

DR Labour	180,000.00 EUR
CR Cash/Bank	180,000.00 EUR

(K) Sales of 55,000 wallets at 25.00 EUR net selling price. Gross amount is $55,000 \times 25 \times 120\% = 1,650,000.00$ EUR.

DR Cash/Bank	1,650,000.00 EUR
CR VAT	275,000.00 EUR
CR Revenue	1,375,000.00 EUR

Observe the profit calculation in the exhibit 1. Consider the closing stock of wallets being $5,000 \times (20,000 + 75,000 + 260,000 + 180,000) / 50,000 = 53,500.00$ EUR.

D		Cash/Bank	C	D		Issued capital	C
(1)	100,000.00	(3)	6,750.00	c/d	100,000.00	(1)	100,000.00
(2)	150,000.00	(4)	10,000.00			b/d	100,000.00
(10)	1,200,000.00	(5)	144,000.00				
		(7)	54,000.00				
		(8)	260,000.00				
		(9)	180,000.00				
		c/d	795,250.00				
	<u>1,450,000.00</u>		<u>1,450,000.00</u>				
b/d	795,250.00	(A)	169,575.00				
(K)	1,650,000.00	(B)	197,837.50				
		(C)	36,000.00				
		(D)	161,000.00				
		(E)	6,300.00				
		(F)	10,000.00				
		(H)	54,000.00				
		(I)	260,000.00				
		(J)	180,000.00				
		c/d	1,370,537.50				
	<u>2,445,250.00</u>		<u>2,445,250.00</u>				
b/d	1,370,537.50						

Exhibit 4: Accounts

D		Interest bearing liabilities	C
(4)	10,000.00	(2)	150,000.00
c/d	140,000.00		
	150,000.00		150,000.00
(F)	10,000.00	b/d	140,000.00
c/d	130,000.00		
	140,000.00		140,000.00
		b/d	130,000.00

D		Interest 20X5	C
(E)	6,300.00	P&L	6,300.00

D		P, P, E	C
(5)	120,000.00	c/d	120,000.00
b/d	120,000.00		

D		VAT	C
(5)	24,000.00	(10)	200,000.00
(7)	15,000.00		
c/d	161,000.00		
	200,000.00		200,000.00
(D)	161,000.00	b/d	161,000.00
(H)	15,000.00	(K)	275,000.00
c/d	260,000.00		
	436,000.00		436,000.00
		b/d	260,000.00

D		Depreciation 20X5	C
(G)	20,000.00	P&L	20,000.00

D		Acc depr	C
c/d	20,000.00	(6)	20,000.00
		b/d	20,000.00
c/d	40,000.00	(G)	20,000.00
	40,000.00		40,000.00
		b/d	40,000.00

D		Purchase - 20X5	C
(H)	75,000.00	P&L	75,000.00

D		Accounts payables	C
		(7)	36,000.00
c/d	233,837.50	A/P	197,837.50
	233,837.50		233,837.50
(B)	197,837.50	b/d	233,837.50
(C)	36,000.00	(H)	36,000.00
c/d	309,070.00	R/E	273,070.00
	542,907.50		542,907.50
		b/d	309,070.00

D		Administration - 20X5	C
(I)	260,000.00	P&L	260,000.00

D		Labour - 20X5	C
(J)	180,000.00	P&L	180,000.00

Exhibit 4: Accounts (continued)

Revenue - 20X5			
D			C
P&L	1,375,000.00	(K)	1,375,000.00

Profit and Loss - 20X5			
D			C
Purch	75,000.00	Rev	1,375,000.00
OV	107,000.00	FG	53,500.00
Depr	20,000.00		
Admin	260,000.00		
Labour	180,000.00		
Interest	6,300.00		
EBT	780,200.00		
	<u>1,428,500.00</u>		<u>1,428,500.00</u>
TL	234,060.00	b/d	780,200.00
R/E	546,140.00		
	<u>780,200.00</u>		<u>780,200.00</u>

Inventory of FG			
D			C
FG	107,000.00	c/d	107,000.00
b/d	107,000.00	P&L	107,000.00
P&L	53,500.00	b/d	53,500.00
	<u>160,500.00</u>		<u>160,500.00</u>
b/d	53,500.00		

Tax liabilities			
D			C
c/d	169,575.00	P&L	169,575.00
(A)	169,575.00	b/d	169,575.00
c/d	234,060.00	P&L	234,060.00
	<u>403,635.00</u>		<u>403,635.00</u>
		b/d	234,060.00

Retained earnings			
D			C
A/P	273,070.00	P&L	546,140.00
Res	273,070.00		
	<u>546,140.00</u>		<u>546,140.00</u>

Reserves			
D			C
c/d	197,837.50	R/E	197,837.50
		b/d	197,837.50
c/d	470,907.50	R/E	273,070.00
	<u>470,907.50</u>		<u>470,907.50</u>
		b/d	470,907.50

Exhibit 5: Accounts (continued)

GEHRDEN Ltd.'s
STATEMENT of COMPREHENSIVE INCOME
for the year ended 31.12.20X5

	[EUR]
Revenue	1,375,000.00
Other income	(53,500.00)
	<u>1,321,500.00</u>
Materials	75,000.00
Labour	180,000.00
Depreciation	20,000.00
Other expenses	<u>260,000.00</u>
Earnings before int and taxes (EBIT)	786,500.00
Interest	<u>6,300.00</u>
Earnings before taxes (EBT)	780,200.00
Income tax expenses	234,060.00
Deferred taxes	
Earnings after taxes (EAT)	546,140.00
to reserves (§ 150 AktG)	0.00
to other earnings reserves	273,070.00
to shareholders	273,070.00
carried forward to next period	0.00

Exhibit 5: GEHRDEN Ltd.'s statement of comprehensive income

Gehrden Ltd.'s
STATEMENT of FINANCIAL POSITION
as at 31.12.20X5

A			C, L
<i>Non-current assets</i>	[EUR]	<i>Owners' capital</i>	[EUR]
P, P, E	80,000.00	Share capital	100,000.00
Intangibles		Reserves	470,907.50
Financial assets		R/E	0.00
<i>Current assets</i>		<i>Liabilities</i>	
Inventory	53,500.00	Interest bear liab	130,000.00
A/R		A/P	569,070.00
Prepaid expenses		Provisions	
Cash/Bank	1,370,537.50	Tax liabilities	234,060.00
	<u>1,504,037.50</u>		<u>1,504,037.50</u>

Exhibit 6: GEHRDEN Ltd.'s statement of financial position

**Gehrden Ltd.'s
STATEMENT of CASH FLOWS
for the period ended 31.12.20X5**

<i>Cash flow from operating activities</i>		
Materials bought	(90,000.00)	
Income taxes paid	(169,575.00)	
VAT paid	(185,000.00)	
Sales	1,650,000.00	
Admin expenses	(260,000.00)	
Labour	(180,000.00)	
		765,425.00
<i>Cash flow from investing activities</i>		
VAT on investments received	(24,000.00)	
		(24,000.00)
<i>Cash flow from financing activities</i>		
Share issue	0.00	
Bank loan received	0.00	
Shareholders' payment	(197,837.50)	
Interest	(6,300.00)	
Pay-off	(10,000.00)	
		(214,137.50)
		527,287.50

Exhibit 7: GEHRDEN Ltd.'s statement of cash flows

**Gehrden Ltd's
RECONCILIATION of EARNINGS
before TAXATION with CFoA
for year ended 31.12.20X4**

Profit for the period	546,140.00
add: depreciation	20,000.00
	566,140.00
Finance payments	6,300.00
	572,440.00
Changes in working capital	
(1) Changes in A/R	
(2) Changes in inventory	53,500.00
(3) Changes in A/P	64,485.00
	690,425.00
Changes in VAT	
(1) VAT receivable	0.00
(2) VAT payable	75,000.00
	765,425.00

Exhibit 8: GEHRDEN Ltd.'s reconciliation statement