

Task IM-10.35: Statements of Cash Flows, Reconciliation

GARCHING (Pty) Ltd. is an internet trading business. The company buys and sells printers. GARCHING (Pty) Ltd. is registered for VAT reduction with the revenue service in Osnabrück.

At the beginning of the Accounting period 20X2, GARCHING (Pty) Ltd. has 300 printers on stock which were bought at 50.00 EUR/u (cost of purchase). During 20X2, GARCHING (Pty) Ltd. buys 1,400 printers at 55.00 EUR/u (cost of purchase). GARCHING (Pty) Ltd. pays the supplier in the next Accounting period for the purchase. The inventory movements of printers are recorded based on a first-in-first-out formula. The total printer sales equal to 1,550 printers. The net selling price is 130.00 EUR/u. All customers pay on cash.

On 4.01.20X2, GARCHING (Pty) Ltd. buys a quality test facility at 14,400.00 EUR (gross amount). For depreciation, GARCHING (Pty) Ltd. records 1,200.00 EUR in 20X2.

The financing of the quality test facility, GARCHING takes on 1.01.20X2 a bank loan of 10,000.00 EUR which comes with an interest rate of 4 %/a and an annual pay-off of 500.00 EUR.

GARCHING (Pty) Ltd. pays labour one month in advance. Labour equals to 4,000.00 EUR/m. In 20X2, there are 13 payments for labour. The last one is the payment for January 20X3.

Required: Calculate the profit before taxation. Prepare a statement of cash flows with a reconciliation of the operating cash flows with the earnings before taxation. Consider tax payments to take place one Accounting period deferred.

Solution:

**Garching (Pty) Ltd.'s
STATEMENT of PROFIT & LOSS
and OTHER COMPREHENSIVE INCOME
for the year ended 31.12.20X2**

	[EUR]
Revenue	201,500.00
Other income	
	201,500.00
Materials	(83,750.00)
Labour	(48,000.00)
Depreciation	(1,200.00)
Other expenses	
Earnings before int. & taxes (EBIT)	68,550.00
Interest	(400.00)
Earnings before taxes (EBT)	68,150.00
Income tax expenses	(20,445.00)
Deferred taxes	
Earnings after taxes (EAT)	47,705.00

Exhibit 1: Income statement

**Garching (Pty) Ltd.'s
STATEMENT of CASH FLOWS
for the period ended 31.12.20X2**

<i>Cash flow from operating activities</i>	
EBT	68,150.00
add Interest paid	400.00
add Depreciation	1,200.00
...	
	<u>69,750.00</u>
<i>changes in working capital</i>	
changes in A/R and prepaid exp.	(4,000.00)
changes in inventory	6,750.00
changes in A/P	92,400.00
changes in VAT/r only materials	(15,400.00)
changes in VAT/p	<u>40,300.00</u>
	<u>189,800.00</u>
<i>Cash flow from investing activities</i>	
Investments	<u>(14,400.00)</u>
	<u>(14,400.00)</u>
<i>Cash flow from financing activities</i>	
Bank loan	10,000.00
Pay-off plus interest	<u>(900.00)</u>
	<u>9,100.00</u>
Total cash flow	<u><u>184,500.00</u></u>

Exhibit 2: Cash flow statement

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

D		Cash/Bank	C	
Pro	241,800.00	Inv	14,400.00	
IBL	10,000.00	Int	400.00	
		P-o	500.00	
		Lab	52,000.00	
		c/d	<u>184,500.00</u>	
	<u>251,800.00</u>		<u>251,800.00</u>	
b/d	<u>184,500.00</u>			

Exhibit 3: Account Cash/Bank