

Task IM-10.39: Preparing a Statement of Cash Flows, Reconciliation Method

WUSTERMARK PLC is a trading business. The currency for this task is the British Pound Sterling GBP. At the beginning of the fiscal year 20X1, WUSTERMARK PLC discloses the balance sheet as below:

Wustermark PLC's STATEMENT of FINANCIAL POSITION as at 31.12.20X0			
A			C, L
<i>Non-current assets</i>	[GBP]	<i>Equity</i>	[GBP]
P, P, E	80.000,00	Share capital	100.000,00
Intangibles		Reserves	
Financial assets		Retained earnings	70.000,00
<i>Current assets</i>		<i>Liabilities</i>	
Inventory	15.000,00	Interest bear liab	
Accounts receivables		Accounts payables	
-- A/R	50.000,00	-- A/P	0,00
-- VAT	0,00	--VAT	0,00
Prepaid expenses	5.000,00	Tax liabilities	30.000,00
Cash/Bank	50.000,00		
Total assets	200.000,00	Total equity and liab.	200.000,00

Exhibit 1: Balance sheet 20X0

---- The following activities are in order to prepare B/S and I/S, not part of the task.

- (1) Paying income tax 30,000.00 GBP.
- (2) Depreciation: 20,000 GBP.
- (3) Investment in new machinery at the end of the year: 75,000.00 GBP.
- (4) Purchase of inventories: 250,000.00 GBP.
- (5) Labour: 240,000.00 GBP.
- (6) Rent: $6 \times 5,000 + 6 \times 5,500 = 63,000.00$ GBP in the income statement; Payment is one month in advance. The total payment in 20X1 equals to: $5 \times 5,000 + 7 \times 5,500 = 63,500.00$ GBP

DR Rent 5,000.00 GBP

CR Prepaid Expenses 5,000.00 GBP

DR Rent 63,500.00 GBP

CR Cash/Bank 63,500.00 GBP

DR Prepaid Expenses 5,500.00 GBP

CR Rent 5,500.00 GBP

(7) Revenue: $260,000 \times 2.2 = 572,000.00$ GBP. The inventories sold are worth 260,000.00 GBP. The Bookkeeping entry for the Revenue is based on the gross amount: $572,000 \times 120\% = 686,400.00$ GBP.

DR Cash/Bank	686,400.00 GBP
CR VAT	114,400.00 GBP
CR Revenue	572,000.00 GBP

(8) Issue of fresh shares: $50,000 \times 1.50 = 75,000.00$ GBP. The face value is 1.00 GBP, the issue price 1.50 GBP.

DR Cash/Bank	75,000.00 GBP
CR Issued Capital	50,000.00 GBP
CR Capital Reserves	25,000.00 GBP

---- End of Explanation

For the Accounting period 20X1 the Profit and Loss account and the Capital Reserves account are provided. You know that WUSTERMARK PLC issued 50,000 fresh ordinary shares at an issue price of 1.50 GBP/share.

Profit and Loss P&L				Capital reserves			
D			C	D			C
COS	260.000,00	Rev	572.000,00	c/d	25.000,00	(8)	25.000,00
RNT	63.000,00					b/d	25.000,00
LAB	240.000,00						
DPR	20.000,00	EBT	11.000,00				
	<u>583.000,00</u>		<u>583.000,00</u>				
b/d	11.000,00	R/E	11.000,00				

Exhibit 2: Accounts

It is also known, that WUSTERMARK PLC invested 75,000.00 GBP in machinery but did not depreciate the new assets (bought on 31.12.20X1!).

**Wustermark PLC's
STATEMENT of FINANCIAL POSITION**

A		as at 31.12.20X1		C, L	
<i>Non-current assets</i>		[GBP]		<i>Equity</i>	
P, P, E	135.000,00			Share capital	150.000,00
Intangibles				Reserves	25.000,00
Financial assets				Retained earnings	59.000,00
<i>Current assets</i>				<i>Liabilities</i>	
Inventory	5.000,00			Interest bear liab	
Accounts receivables	50.000,00			VAT payables	49.400,00
Prepaid expenses	5.500,00			Provisions	
Cash/Bank	87.900,00			Tax liabilities	0,00
Total assets	283.400,00			Total equity and liab.	283.400,00

Exhibit 3: Balance sheet 20X2

Required: Prepare a statement of cash flows and reconcile the profit (loss) with the operating cash flows. In this task you have to consider VAT at a VAT rate of 20%. Rent is not subjected to VAT.

Solution:

Note:

- The prepaid expenses changes by 500 GBP – this is seen as a change in A/R.
- The inventories are reduced by 10,000.00 GBP.
- The income taxes have been paid completely, as the P&L account shows a loss and the ITL account is zero balanced.
- VAT/r result from materials only. The materials bought are 15,000 + Purchase – COS = 5,000.00 GBP. Hence; purchases are amounting to: 5,000 – 15,000 + 260,000 = **250,000.00 GBP**. VAT/r = 250,000 × 20% = **50,000.00 GBP**.
- VAT/p results from revenues: 572,000 × 20% = **114,400.00 GBP**.
- There is no appropriation of profits as the previous profit is reduced by the loss made in 20X1: 70,000 – 11,000 = **(59,900.00 GBP)**.

Wustermark PLC's
STATEMENT of CASH FLOWS
for the period ended 31.12.20X1

<i>Cash flow from operating activities</i>	
EAT	(11.000,00)
add Depreciation	20.000,00
...	
	9.000,00
<i>changes in working capital</i>	
changes in A/R, prepaid expenses	(500,00)
changes in inventory	10.000,00
changes in A/P	0,00
changes in I/TL	(30.000,00)
changes in VAT/r only materials	(50.000,00)
changes in VAT/p	114.400,00
	52.900,00
<i>Cash flow from investing activities</i>	
Investments (gross amount)	(90.000,00)
	(90.000,00)
<i>Cash flow from financing activities</i>	
Share issue	75.000,00
	75.000,00
Total cash flow	37.900,00

Exhibit 4: Statement of cash flows

Find below all accounts:

D	P, P, E	C
OV	80.000,00	(2) 20.000,00
(3)	75.000,00	c/d 135.000,00
	155.000,00	155.000,00
b/d	135.000,00	

D	Issued capital	C
	OV	100.000,00
c/d	150.000,00	(8) 50.000,00
	150.000,00	150.000,00
	b/d	150.000,00

D	Inventory	C
OV	15.000,00	(7b) 260.000,00
(4)	250.000,00	c/d 5.000,00
	265.000,00	265.000,00
b/d	5.000,00	

D	Retained earnings R/E	C
P&L	11.000,00	OV 70.000,00
c/d	59.000,00	
	70.000,00	70.000,00
	b/d	59.000,00

D		Accounts receivables A/R	C
OV	50.000,00	c/d	50.000,00
b/d	50.000,00		

D		Income tax liabilities ITL	C
(1)	30.000,00	OV	30.000,00

D		Prepaid expenses	C
OV	5.000,00	(6a)	5.000,00
(6c)	5.500,00	c/d	5.500,00
	10.500,00		10.500,00
b/d	5.500,00		

D		Depreciation DPR	C
(2)	20.000,00	c/d	20.000,00
b/d	20.000,00	P&L	20.000,00

D		Cash/Bank	C
OV	50.000,00	(1)	30.000,00
(7a)	686.400,00	(3)	90.000,00
(8)	75.000,00	(4)	300.000,00
		(5)	240.000,00
		(6b)	63.500,00
		c/d	87.900,00
	811.400,00		811.400,00
b/d	87.900,00		

D		VAT	C
(3)	15.000,00	(7a)	114.400,00
(4)	50.000,00		
c/d	49.400,00		
	114.400,00		114.400,00
		b/d	49.400,00

D		Labour LAB	C
(5)	240.000,00	P&L	240.000,00

D		Rent RNT	C
(6a)	5.000,00	(6c)	5.500,00
(6b)	63.500,00	c/d	63.000,00
	68.500,00		68.500,00
b/d	63.000,00	P&L	63.000,00

D		Revenue REV	C
P&L	572.000,00	(7a)	572.000,00

D		Cost of Sales	C
(7b)	260.000,00	P&L	260.000,00

D		Profit and Loss P&L	C
COS	260.000,00	Rev	572.000,00
RNT	63.000,00		
LAB	240.000,00		
DPR	20.000,00	EBT	11.000,00
	583.000,00		583.000,00
b/d	11.000,00	R/E	11.000,00

D		Capital reserves	C
c/d	25.000,00	(8)	25.000,00
		b/d	25.000,00

Exhibit 5: Accounts