

Task A10.42: Preparing a Statement of Cash Flows, Reconciliation Method

HELPIFIELD Ltd. is a production firm in Australia for flower pots.

The company manufactures one type of flower pots at cost of acquisition of 15.50 AUD/u. At the beginning of the Accounting period an amount of 73,000 flower pots (finished goods) is still on stock. The costs of manufacturing are the same (= 15.50 AUD/u). During the Accounting period HELPIFIELD Ltd. produces 850,000 units of flower pots and sells 845,000 thereof at a net selling price of 35.00 AUD/u. 93 % of the sales transactions are on cash/bank transfer; the remainder is recorded on credit. Consider VAT for sales. Only 60 % of the cost of manufacturing are VATable (subjected to input-VAT), e.g. depreciation and labour are not.

The company receives a VAT refund of 500,000.00 AUD from the Australian revenue service in 20X9 via bank transfer.

Depreciation on HELPIFIELD Ltd.'s the machinery is amounting to 46,000.00 AUD in 20X9.

The company prepays rent to an extent of 20,000.00 AUD in 20X9 for 20Y0. No prepayment was made in 20X8 for 20X9.

The company is financed by a bank loan which is an annuity of 400,000.00 AUD taken on 1.01.20X5. The annual payment is 75,000.00 AUD. The rate of interest is 5 % and is included in the annual payments. Interest and pay-off amounts are paid at the end of the Accounting periods.

Required: Prepare a statement of comprehensive income based on the cost of sales formula and prepare a statement of cash flows by reconciliation of operating cash flows with profit after taxation.

Solution:

Helpfield Ltd.'s STATEMENT of PROFIT & LOSS and OTHER COMPREHENSIVE INCOME for the year ended 31.12.20X9	
	[AUD]
Revenue	29,575,000.00
Changes in inventories	77,500.00
	<u>29,652,500.00</u>
COM	(13,175,000.00)
Rent	
Other expenses	
Earnings before int. & taxes (EBIT)	<u>16,477,500.00</u>
Interest	(8,147.16)
Earnings before taxes (EBT)	<u>16,469,352.84</u>
Income tax expenses	(4,940,805.85)
Deferred taxes	
Earnings after taxes (EAT)	<u>11,528,546.99</u>

Exhibit 1: Income statement

Helpfield Ltd.'s STATEMENT of CASH FLOWS for the period ended 31.12.20X9		
	[AUD]	[AUD]
<i>Cash flow from operating activities</i>		
EAT	11,528,546.99	
add Interest paid	8,147.16	
add Depreciation	46,000.00	
	<u>11,582,694.15</u>	
<i>changes in working capital</i>		
changes in A/R, prepaid expenses	(2,504,300.00)	
changes in inventory	(77,500.00)	
changes in A/P and income tax	4,940,805.85	
changes in VAT/r only materials	(1,081,000.00)	
changes in VAT/p	5,915,000.00	
		<u>18,775,700.00</u>
<i>Cash flow from investing activities</i>		
Investments	0.00	
		<u>0.00</u>
<i>Cash flow from financing activities</i>		
Interest	(8,147.16)	
Pay-off	(66,852.84)	
		<u>(75,000.00)</u>
Total cash flow		<u>18,700,700.00</u>

Exhibit 2: Statement of cash flows

In order to double-check results, we prepare a Cash/Bank account (not required by task): The calculation of the payment for cost of manufacturing is: $15.5 \times 850,000 \times (1 + 0.2 \times 60\%) - 46,000 = 14,710,000.00$ AUD.

D	Cash/Bank	C
OV . . .	LOA 75,000.00	
PRO 33,005,700.00	COM 14,710,000.00	
ARS 500,000.00	PRE 20,000.00	
	c/d 18,700,700.00	
	<u>33,505,700.00</u>	<u>33,505,700.00</u>
b/d 18,700,700.00		

Exhibit 3: Cash/Bank account