

Task A10.46: Preparing a Statement of Cash Flows, Reconciliation Method

BRANDER (Pty) Ltd. is a production firm for wines. BRANDER (Pty) Ltd. is based on 1,000,000 shares at 1.00 ZAR/s. The share issue takes place on 1.01.20X0. For financing, BRANDER (Pty) Ltd. takes a bank loan on 1.02.20X0 which is an annuity. The annuity is amounting to 400,000.00 ZAR. The annuity is 40,000.00 ZAR, the rate of interest equals 7.50 %/a.

The production process is filling wines into 0.75 litre bottles which are bought at 2.05 ZAR/u on demand (no closing stock). The wines are bought at 24.00 ZAR/litre (net amounts).

In 20X0, BRANDER (Pty) Ltd. buys 10,000 litres from local wine farmers. The company put the wines in a tank on its premises. During 20X0, an amount of 9,000 bottles is filled. The remainder stays in the tank. 80 % of the bottles are sold to a supermarket chain at 65.00 ZAR/bottle (net selling price) which pays the wines to an extent of 75 %. The remainder is paid in the next Accounting period.

Other operational expenses at BRANDER (Pty) Ltd. are 100,000.00 ZAR.

Consider VAT at a VAT rate of 20 % for bottles, wines and sales. Operational expenses are not VATable.

Required: Prepare an income statement and determine BRANDER (Pty) Ltd.'s operating cash flow via reconciliation. Start with earnings after taxation! Determine further cash flow directly. Hint: You do not have to make all Bookkeeping entries. Marking is based on your income statement and the statement of cash flows.

Hint: Pls., consider that the bottles only contain 0.75 l whereas the purchase price per wine is based on a full litre.

Remark: To keep the task simple, no investments and no depreciation apply.

Solution:

CH5-BRANDER.xls see below:

**Brander (Pty) Ltd.'s
STATEMENT of PROFIT & LOSS
and OTHER COMPREHENSIVE INCOME
for the year ended 31.12.20X0**

	[ZAR]
Revenue	468,000.00
Other income	
	<u>468,000.00</u>
Cost of sales	(144,360.00)
Labour	
Depreciation	
Other expenses	(100,000.00)
Earnings before int. & taxes (EBIT)	<u>223,640.00</u>
Interest	(27,500.00)
Earnings before taxes (EBT)	<u>196,140.00</u>
Income tax expenses	(58,842.00)
Deferred taxes	
Earnings after taxes (EAT)	<u>137,298.00</u>

Exhibit 1: Income statement

Brander (Pty) Ltd.'s
STATEMENT of CASH FLOWS
for the period ended 31.12.20X0

	[ZAR]	[ZAR]
<i>Cash flow from operating activities</i>		
EAT	137,298.00	
add Interest paid	27,500.00	
	<u>164,798.00</u>	
<i>changes in working capital</i>		
changes in A/R	(140,400.00)	
changes in inventory	(114,090.00)	
changes in A/P	0.00	
changes in income tax liabilities	58,842.00	
changes in VAT/r only materials	(51,690.00)	
changes in VAT/p	93,600.00	
		<u>11,060.00</u>
<i>Cash flow from investing activities</i>		
		<u>0.00</u>
<i>Cash flow from financing activities</i>		
Share issue	1,000,000.00	
Bank loan taken	400,000.00	
Pay-off plus interest	(40,000.00)	
		<u>1,360,000.00</u>
Total cash flow		<u><u>1,371,060.00</u></u>

Exhibit 2: Statement of cash flows

Brander (Pty) Ltd.'s
STATEMENT of FINANCIAL POSITION
as at 31.12.20X1

A			C, L
<i>Non-current assets</i>	[ZAR]	<i>Equity</i>	[ZAR]
P, P, E		Share capital	1,000,000.00
Intangibles		Reserves	
Financial assets		Retained earnings	137,298.00
<i>Current assets</i>		<i>Liabilities</i>	
Inventory	114,090.00	Long-term Liab. IBL	387,500.00
Accounts receivables	140,400.00	Short-term Liab. A/P	41,910.00
Prepaid expenses		Provisions	
Cash/Bank	1,371,060.00	Tax liabilities	58,842.00
Total assets	<u>1,625,550.00</u>	Total equity and liab.	<u>1,625,550.00</u>

Exhibit 3: Balance sheet (not required)