

Task A10.48: Exercise on Cash Flows

VALDERRAMA Ltd. is an Australian online shop for headsets. The company is established on 1.01.20X3 with a share issue of 100,000 ordinary shares at 1.00 AUD/s. The issue price is 1.20 AUD/s. VALDERRAMA Ltd. takes a bank loan on 2.01.20X3 for 50,000.00 AUD which comes with an annual rate of interest of 4.3 %/a. The pay-off is 2,500.00 AUD/a. Both, interest and pay-off must be paid on every 31.12.20XX. For the shipping of the headsets, VALDERRAMA Ltd. buys a workstation which costs 35,000.00 AUD (net amount). The payment of the workstation is in 20X3 to an extent of 75%, the remainder is paid in 20X4. The workstation is depreciated by 8%/a following declining method.

For shipping, VALDERRAMA Ltd. buys every Accounting period 150,000 boxes at 1.50 AUD (net value) from its supplier. The boxes are paid instantly via bank transfer.

Every month, VALDERRAMA Ltd. buys 10,000 headsets at cost of purchase of 80.00 AUD/p (net value) which must be paid to an extent of 40%; the remainder is paid once the headsets are sold. During the Accounting period 20X3, VALDERRAMA Ltd. sells and ships 76,834 headsets at a net selling price of 170.00 AUD/p.

Labour at VALDERRAMA Ltd. is 7,500.00 AUD/m and must be paid one month in advance. Consider 2 payments in January 20X3.

In 20X4, all figures remain the same. However, no share issue nor investment are made. No appropriation of profits applies in the first 2 Accounting periods, hence profits are carried forward to the next Accounting periods.

Required: Prepare income statements for 20X3 and 20X4 and derive 2 statements of cash flows via reconciliation method. Hint: It is advised to prepare a C/B account and a VAT account at least.

Solution:

We only prepare a Cash/Bank account and a Profit and Loss account for the Accounting periods 20X3 and 20X4.

- (1) Share issue: $100,000 \times 1.20 = 120,000.00 \text{ AUD}$.
- (2) Receipt of the bank loan: **50,000.00 AUD**.
- (3) Interest in 20X3: $50,000 \times 4.3\% = 2,150.00 \text{ AUD}$.

- (4) Pay-off: 2,500.00 AUD.
- (5) Investment in workstation: $35,000 \times 1.2 = 42,000.00$ AUD. Payment is only 75% $\times 42,000 = 31,500.00$ AUD. Increase of A/P = $42,000 - 31,500 = 10,500.00$ AUD.
- (6) Depreciation: $8\% \times 35,000 = 2,800.00$ AUD
- (7) Purchase of boxes: $150,000 \times 1.50 = 225,000.00$ AUD. Payment = $225,000 \times 120\% = 270,000.00$ AUD. Closing stock of boxes: $150,000 - 76,834 = 73,166$ boxes: $73,166 \times 1.50 = 109,749.00$ AUD.
- (8) Purchase $120,000 \times 80 \times 120\% = 11,520,000.00$ AUD. Payment made: $120,000 \times 80 \times 40\% \times 120\% + 76,834 \times 80 \times 60\% \times 120\% = 9,033,638.40$ AUD. Addition to A/P: $11,520,000 - 9,033,638.40 = 2,486,361.60$ AUD. Increase of inventories: $(120,000 - 76,834) \times 80 = 3,453,280.00$ AUD.
- (9) Labour: $7,500 \times 12 = 90,000.00$ AUD. Payment: 97,500.00 AUD. Prepaid expenses are $97,500 - 90,000 = 7,500.00$ AUD.
- (10) Revenue recognition: $76,834 \times 170 = 13,061,780.00$ AUD. The gross amount is: **15,674,136.00 AUD**. The addition to output-VAT is: $15,674,136 - 13,061,780 = 2,612,356.00$ AUD.
- (A1) Interest in 20X4: $(50,000 - 2,500) \times 4.3\% = 2,042.50$ AUD
- (A2) Pay-off.
- (B) Depreciation 20X4: $= (35,000 - 2,800) \times 8\% = 2,576.00$ AUD
- (C) Final payment of workstations: $42,000 - 31,500 = 10,500.00$ AUD.
- (D) VAT payment made: 640,356.00 AUD.
- (E) Purchase of boxes: $150,000 \times 1.50 = 225,000.00$ AUD. Payment = $225,000 \times 120\% = 270,000.00$ AUD. Closing stock of boxes: $73,166 \times 2 = 146,332$ boxes: $146,332 \times 1.50 = 219,498.00$ AUD.
- (F) Purchase $120,000 \times 80 \times 120\% = 11,520,000.00$ AUD. Payment made: $120,000 \times 80 \times 40\% \times 120\% + 76,834 \times 80 \times 60\% \times 120\% = 9,033,638.40$ AUD. Addition to A/P: $11,520,000 - 9,033,638.40 = 2,486,361.60$ AUD. Increase of inventories: $(120,000 - 76,834) \times 80 = 3,453,280.00$ AUD.
- (G) Payment for labour = 90,000.00 AUD.
- (H) Revenue recognition: $76,834 \times 170 = 13,061,780.00$ AUD. The gross amount is: **15,674,136.00 AUD**. The addition to output-VAT is: $15,674,136 - 13,061,780 = 2,612,356.00$ AUD.
- (I) Payment of income taxes from last Accounting period: 2,011,457.70 AUD (check income statement).

Find below the C/B, VAT and P&L accounts:

D Cash/Bank C		D Profit and Loss-20X3 C	
(1) 120,000.00	(3) 2,150.00	INT 2,150.00	REV 13,061,780.00
(2) 50,000.00	(4) 2,500.00	DPR 2,800.00	
(10) 15,674,136.00	(5) 31,500.00	MEb 115,251.00	
	(7) 270,000.00	MEh 6,146,720.00	
	(8) 9,033,638.40	LAB 90,000.00	
	(9) 97,500.00	EBT 6,704,859.00	
	c/d 6,406,847.60	<u>13,061,780.00</u>	<u>13,061,780.00</u>
<u>15,844,136.00</u>	<u>15,844,136.00</u>	ITL 2,011,457.70	b/d 6,704,859.00
b/d 6,406,847.60	(A1) 2,042.50	R/E 4,693,401.30	
(H) 15,674,136.00	(A2) 2,500.00		
	(C) 10,500.00		
	(D) 640,356.00		
	(E) 270,000.00		
	(F) 9,033,638.40		
	(G) 90,000.00		
	(I) 2,011,457.70		
	c/d 10,020,489.00		
<u>22,080,983.60</u>	<u>22,080,983.60</u>		
b/d 10,020,489.00			

D VAT C		D Profit and Loss-20X4 C	
(5) 7,000.00	(10) 2,612,356.00	INT 2,042.50	REV 13,061,780.00
(7) 45,000.00		DPR 2,576.00	
(8) 1,920,000.00		MEb 115,251.00	
c/d 640,356.00		MEh 6,146,720.00	
<u>2,612,356.00</u>	<u>2,612,356.00</u>	LAB 90,000.00	
(D) 640,356.00	b/d 640,356.00	EBT 6,705,190.50	
(E) 45,000.00	(H) 2,612,356.00	<u>13,061,780.00</u>	<u>13,061,780.00</u>
(F) 1,920,000.00		ITL 2,011,557.15	b/d 6,705,190.50
c/d 647,356.00		R/E 4,693,633.35	
<u>3,252,712.00</u>	<u>3,252,712.00</u>		
b/d 647,356.00	b/d 647,356.00		

Exhibit 1: Accounts

Below, the statements of cash flows are displayed.

Valderrama Ltd.
STATEMENT of CASH FLOWS
for the period ended 31.12.20X3

<i>Cash flow from operating activities</i>	[AUD]	[AUD]
EAT	4,693,401.30	
add Interest paid	2,150.00	
add Depreciation	2,800.00	
...		
	<u>4,698,351.30</u>	
<i>changes in working capital</i>		
changes in A/R	0.00	
changes in prepaid expenses	(7,500.00)	
changes in inventory	(3,563,029.00)	
changes in A/P	2,486,361.60	
changes in income tax liabilities	2,011,457.70	
changes in VAT/r only materials	(1,965,000.00)	
changes in VAT/p	<u>2,612,356.00</u>	
		<u>6,272,997.60</u>
<i>Cash flow from investing activities</i>		
Investments	<u>(31,500.00)</u>	
		<u>(31,500.00)</u>
<i>Cash flow from financing activities</i>		
Share issue	120,000.00	
Loan issue	50,000.00	
Interest	(2,150.00)	
Pay-off	<u>(2,500.00)</u>	
		<u>165,350.00</u>
Total cash flow		<u><u>6,406,847.60</u></u>

Valderrama Ltd.
STATEMENT of CASH FLOWS
for the period ended 31.12.20X4

	[AUD]	[AUD]
<i>Cash flow from operating activities</i>		
EAT	4,693,633.35	
add Interest paid	2,042.50	
add Depreciation	2,576.00	
...		
	<u>4,698,251.85</u>	
<i>changes in working capital</i>		
changes in A/R	0.00	
changes in prepaid expenses	0.00	
changes in inventory	(3,563,029.00)	
changes in A/P	2,486,361.60	
changes in income tax liabilities	99.45	
changes in VAT/r only materials	(2,605,356.00)	
changes in VAT/p	<u>2,612,356.00</u>	
		<u>3,628,683.90</u>
<i>Cash flow from investing activities</i>		
Investments	<u>(10,500.00)</u>	
		<u>(10,500.00)</u>
<i>Cash flow from financing activities</i>		
Share issue	0.00	
Loan issue	0.00	
Interest	(2,042.50)	
Pay-off	<u>(2,500.00)</u>	
		<u>(4,542.50)</u>
Total cash flow		<u><u>3,613,641.40</u></u>

Exhibit 2: Statements of cash flows

Although it is not required, find below the balance sheets for double checking of results.

Valerrama Ltd.
STATEMENT of FINANCIAL POSITION
as at 31.12.20X3

as at 31.12.20X3		C, L	
Non-current assets	[ZAR]	Equity	[ZAR]
P, P, E	32,200.00	Share capital	100,000.00
Intangibles		Reserves	20,000.00
Financial assets		Retained earnings	4,693,401.30
Current assets		Liabilities (liab.)	
Inventory	3,563,029.00	Long-term liab. IBL	47,500.00
Acc. receivables A/R		Short-term liab. A/P	3,137,217.60
Prepaid expenses	7,500.00	Provisions	
Cash/Bank	6,406,847.60	Income tax liab.	2,011,457.70
Total assets	10,009,576.60	Total equity and liab.	10,009,576.60

Valerrama Ltd.
STATEMENT of FINANCIAL POSITION
as at 31.12.20X4

A		as at 31.12.20X4		C, L		
Non-current assets		[ZAR]		Equity		[ZAR]
P, P, E		29,624.00		Share capital		100,000.00
Intangibles				Reserves		20,000.00
Financial assets				Retained earnings		9,387,034.65
Current assets				Liabilities (liab.)		
Inventory		7,126,058.00		Long-term liab. IBL		45,000.00
Acc. receivables A/R				Short-term liab. A/P		5,620,079.20
Prepaid expenses		7,500.00		Provisions		
Cash/Bank		10,020,489.00		Income tax liab.		2,011,557.15
Total assets		17,183,671.00		Total equity and liab.		17,183,671.00

Exhibit 3: Balance sheets