

**Aufgabe QR-12.3: Erfolgsrechnung und Vorratsbewertung**

(Income Statement and Valuation of Inventories)

DOBONGSAN CAMPING Ltd. is a camping equipment production firm. It produces foldable camping tables. They consist of 4 steel legs and a wooden desk top. At the beginning of accounting period 20X6 there are 400 steel legs on stock. Their net value is 1.50 EUR/p. There is no opening value for desk tops nor finished goods. DOBONGSAN CAMPING bought materials (gross amounts, consider VAT) during 20X6 as follows:

(1) Steel legs: 01.01.20X6: 400 p for 2.40 EUR/p  
01.04.20X6: 600 p for 2.10 EUR/p  
01.07.20X6: 900 p for 2.10 EUR/p and  
01.10.20X6: 500 p for 1.92 EUR/p.

(2) desk tops: 01.01.20X6: 660 p for 6.00 EUR/p.

During 20X6 DOBONGSAN CAMPING produced 660 tables and sold 60 % of them. The gross amount for the selling price is 24.00 EUR/p.

Consider first in first out cost formula for all cost flows. Assume there are job orders for table production. So, you can apply FIFO cost formula for finished goods as well.

Additionally, DOBONGSAN has to consider cost of conversion like labour: 2,700.00 EUR/year and depreciation on production facilities 1,000.00 EUR/year.

**Required: Prepare an income statement along the nature of expense method. The income tax rate is 30 %.**

**Lösung: (Solution)**

Despite, it is required to follow the nature of expense method cost of manufacturing are computed by WIP account. The WIP account and the FG account are used to determine changes of inventory. For the solution all bookkeeping entries are shown and later the income statement is to be set up. In an exam it might be easier to not show the accounts because the approach provided it more time consuming.

The opening value for raw materials is  $400 \cdot 1.50 = \mathbf{600.00 \text{ EUR}}$ .

The first bookkeeping entries are related to the purchase of raw materials.

(1) Purchase of steel legs on 01.01.20X6:  $400 \cdot 2.40 / 120\% = \mathbf{800.00 \text{ EUR}}$ .

<b>DR RM-leg inventory</b> .....	<b>800.00 EUR</b>
<b>DR VAT</b> .....	<b>160.00 EUR</b>
<b>CR Cash</b> .....	<b>960.00 EUR</b>

(2) Purchase of steel legs on 01.04.20X6:  $600 \cdot 2.10 / 120\% = 1,050.00$  EUR.

<b>DR RM-leg inventory</b> .....	<b>1,050.00 EUR</b>
<b>DR VAT</b> .....	<b>210.00 EUR</b>
<b>CR Cash</b> .....	<b>1,260.00 EUR</b>

(3) Purchase of steel legs on 01.07.20X6:  $900 \cdot 2.10 / 120\% = 1,575.00$  EUR.

<b>DR RM-leg inventory</b> .....	<b>1,575.00 EUR</b>
<b>DR VAT</b> .....	<b>315.00 EUR</b>
<b>CR Cash</b> .....	<b>1,890.00 EUR</b>

(4) Purchase of steel legs on 01.10.20X6:  $500 \cdot 1.92 / 120\% = 800.00$  EUR.

<b>DR RM-leg inventory</b> .....	<b>800.00 EUR</b>
<b>DR VAT</b> .....	<b>160.00 EUR</b>
<b>CR Cash</b> .....	<b>960.00 EUR</b>

(5) Purchase of desk tops on 01.01.20X6:  $660 \cdot 6.00 / 120\% = 3,300.00$  EUR

<b>DR RM desk-top inventory</b> .....	<b>3,300.00 EUR</b>
<b>DR VAT</b> .....	<b>660.00 EUR</b>
<b>CR Cash</b> .....	<b>3,960.00 EUR</b>

(6) Consumption of raw materials is related to steel legs and desk tops. The consumption of steel legs starts with the opening value. For that reason direct materials (2,640 steel legs) are:  $400 \cdot 1.50 + 400 \cdot 2.00 + 600 \cdot 1.75 + 900 \cdot 1.75 + 340 \cdot 1.60 = 4,569.00$  EUR. WIP account is the conciliation account for job order sheets.

<b>DR WIP</b> .....	<b>4,569.00 EUR</b>
<b>CR RM-leg inventory</b> .....	<b>4,569.00 EUR</b>

(7) Consumption of desk tops is related to all desk tops.

<b>DR WIP</b> .....	<b>3,300.00 EUR</b>
<b>CR RM-desk top inventory</b> .....	<b>3,300.00 EUR</b>

(8) Bookkeeping entry for labour

<b>DR Labour</b> .....	<b>2,700.00 EUR</b>
<b>CR Cash</b> .....	<b>2,700.00 EUR</b>

(9) Charging the WIP account with labour

<b>DR WIP</b> .....	<b>2,700.00 EUR</b>
<b>CR Labour</b> .....	<b>2,700.00 EUR</b>

(10) Bookkeeping entry for depreciation

<b>DR Depr</b> .....	<b>1,000.00 EUR</b>
<b>CR Acc. Depr</b> .....	<b>1,000.00 EUR</b>

(11) Charging WIP account for depreciation

<b>DR WIP</b> .....	<b>1,000.00 EUR</b>
<b>CR Depr</b> .....	<b>1,000.00 EUR</b>

(12) After completion of production all tables are transferred to the storage room. The bookkeeping entries are:

<b>DR FG inventory</b> .....	<b>11,569.00 EUR</b>
<b>CR P&amp;L account (COM)</b> .....	<b>11,569.00 EUR</b>

(10) When camping tables are sold FIFO method is to be applied again, because the FG inventory account contains tables at different values. So, sold tables (60 %) are those tables that were produced first. Cost of sales is for that reason related to 396 tables (1,584 steel legs):  $(400 \cdot 1.50 + 400 \cdot 2.00 + 600 \cdot 1.75 + 184 \cdot 1.75) + (396 \cdot 5) + (60\% \cdot 2,700) + (60\% \cdot 1,000) = \mathbf{6,972.00 \text{ EUR}}$ . (The brackets are used to mark different cost elements.)

Accordingly closing stock of finished goods is  $(716 \cdot 1.75 + 340 \cdot 1.60) + (264 \cdot 5.00) + (40\% \cdot 2,700) + (40\% \cdot 1,000) = \mathbf{4,597.00 \text{ EUR}}$ .

The bookkeeping entries for the changes in inventory are:

<b>DR FG inventory</b> .....	<b>4,597.00 EUR</b>
<b>CR P&amp;L account (Cl. St.)</b> .....	<b>4,597.00 EUR</b>

(11) Bookkeeping entry for sales  $396 \cdot 24 = \mathbf{9,504.00 \text{ EUR}}$ .

<b>DR Cash</b> .....	<b>9,504.00 EUR</b>
<b>CR VAT</b> .....	<b>1,584.00 EUR</b>
<b>CR Sales</b> .....	<b>7,920.00 EUR</b>

(12) Transfer to P&L account:

<b>DR Sales</b> .....	<b>7,920.00 EUR</b>
<b>CR P&amp;L account</b> .....	<b>7,920.00 EUR</b>

<b>RM-leg Inv</b>				<b>WIP</b>				<b>Cash</b>			
D			C	D			C	D			C
OV	600,00	(6)	4.569,00	(6)	4.569,00	FG	11.569,00	(11)	9.504,00	(1)	960,00
(1)	800,00			(7)	3.300,00					(2)	1.260,00
(2)	1.050,00			(9)	2.700,00					(3)	1.890,00
(3)	1.575,00			(11)	1.000,00					(4)	960,00
(4)	800,00	c/d	256,00		11.569,00		11.569,00	c/d	2.226,00	(5)	3.960,00
	<u>4.825,00</u>		<u>4.825,00</u>						<u>11.730,00</u>	(8)	2.700,00
b/d	256,00									b/d	2.226,00
<b>RM-desk top Inv</b>				<b>Labour</b>				<b>Depr</b>			
D			C	D			C	D			C
(5)	3.300,00	(7)	3.300,00	(8)	2.700,00	(9)	2.700,00	(10)	1.000,00	(11)	1.000,00
	<u>3.300,00</u>		<u>3.300,00</u>								
<b>Acc Depr</b>				<b>FG inv</b>				<b>P&amp;L-20X8</b>			
D			C	D			C	D			C
c/d	1.000,00	(10)	1.000,00	WIP	11.569,00	P&L-8	11.569,00	COM	11.569,00	Sales	7.920,00
	<u>1.000,00</u>	b/d	1.000,00	P&L-8	4.597,00	c/d	4.597,00	NP	948,00	Cl.St.	4.597,00
					16.166,00		16.166,00		12.517,00		12.517,00
				b/d	4.597,00			Tax	284,40	NP	948,00
								R/E	663,60		
									<u>948,00</u>		<u>948,00</u>
<b>VAT</b>				<b>Sales</b>							
D			C	D			C				
(11)	1.584,00	(1)	160,00	P&L-8	7.920,00	(11)	7.920,00				
		(2)	210,00								
		(3)	315,00								
		(4)	160,00								
		(5)	660,00								
		c/d	79,00								
	<u>1.584,00</u>		<u>1.584,00</u>								
b/d	79,00										

Exhibit 1: Accounts

The income statement is displayed as shown below:

Dobangsan's INCOME STATEMENT for 20X6	
	20X6
	[EUR]
Revenue	7.920,00
Other Income	
Changes in Inventory of Finished Goods and Work in Progress	4.597,00
Work Performed by the Entity and Capitalized	
	<u>12.517,00</u>
<b>Raw Material and Consumables Used</b>	(7.869,00)
<b>Employee Benefits Expense</b>	(2.700,00)
<b>Depreciation and Amortisation Expense</b>	(1.000,00)
<b>Impairment of Property, Plant and Equipment</b>	
<b>Other Expenses</b>	
<b>Finance Costs</b>	
Share of Profit of Associates	
Profit Before Taxation (EBT)	<u>948,00</u>
Income Tax Expenses	(284,40)
Deferred Tax Income/Expense	
<i>Profit for the Period (EAT)</i>	<u>663,60</u>

**Exhibit 2:** Income statement