

Aufgabe QR-12.4: Appropriation of Profit, Income Taxes

(Gewinnverwendung, Unternehmensbesteuerung)

EVERSDAL AG is in the transport business. The company runs taxis and city-trucks in Münster (Trade tax rate (Gewerbsteuerhebesatz) 440%). The accountant of EVERSDAL gives you the information below:

EVERSDAL's legal form is a limited company and it is based on shares. There are 100,000 issued shares at a face value of 5.00 EUR each. The issue price was 6.80 EUR/share. Additionally, EVERSDAL issued 60,000 preference shares on 1.5.20X6. The face value was 5.00 EUR/share. The issue price was 5.50 EUR. The EVERSDAL preference shares are non-redeemable, non-cumulative and come with a 7.5% dividend based on the face value.

EVERSDAL AG has no other reserves than capital reserves at the beginning of the fiscal year 20X6.

In 20X6 EVERSDAL made a net revenue 3,500,000.00 EUR. The following expenses were recorded free of VAT: Labour 1,290,000.00 EUR, depreciation on vehicles 560,000.00 EUR., fuel (material) 300,000.00 EUR, spare parts/maintenance/repair 450,000.00 EUR, administration 640,000.00 EUR, impairment losses 45,000.00 EUR.

EVERSDAL AG plans to declare a dividend to be 40 % of the distributable amount. The remaining amount is to be carried forward to 20X7.

Required: Name the bookkeeping entries for the appropriation of profit and prepare a statement of comprehensive income that includes the appropriation section. How much is the net dividend to be paid to an ordinary shareholder. Pls., consider that para 150 of the German company's act applies. The Tax on capital return is 25 %.

Lösung (Solution):

In order to compute the profit the P&L account is prepared:

P&L-Account			
D			C
20X3	[EUR]	20X3	[EUR]
Labour	1.290.000,00	Sales	3.500.000,00
Material	300.000,00		
Maint+	450.000,00		
Depr.	560.000,00		
IL	45.000,00		
Admin	640.000,00		
NP (c/d)	215.000,00		
	<u>3.500.000,00</u>		<u>3.500.000,00</u>

Exhibit 1: P&L-Account

EVERSDAL's trade tax for fiscal year 20X6 is $3.5\% \cdot 440\% = 15.4\%$.

The preference dividend is $7.5\% \cdot 8/12 \cdot 5 \cdot 60,000 = 15,000.00 \text{ EUR}$.

The question whether or not para 150 AktG applies depends on the amount that results from the capital reserves divided by issued capital. Here the capital reserves amount to $100,000 \cdot (6.80 - 5) + 60,000 \cdot (5.50 - 5) = 210,000.00 \text{ EUR}$. The total of issued capital is $(100,000 + 60,000) \cdot 5 = 800,000.00 \text{ EUR}$. Because of the preference shares being non-redeemable they are considered to be equity. EVERSDAL's capital reserve exceeds 10 % of its issued capital. For that reason no additional amounts are supposed to put to legal reserves.

See the working on taxation in order to determine the payments for income tax and

Eversdal AG's TAX COMPUTATION for year ended 31.12.20X6	
Earnings before tax	215.000,00
less Trade tax (15,4%)	(33.110,00)
Earnings after trade tax	181.890,00
less Corporate tax (15%)	(32.250,00)
less German reunion tax (5,5%)	(1.773,75)
Earnings after taxes	147.866,25
Total of income tax	67.133,75
Earnings after taxes	147.866,25
add Profit/loss carried forward	0,00
less Preference dividend	(15.000,00)
less Reserves along § 150 AktG	0,00
Distributable amount	132.866,25
(1) Gross dividend	53.146,50
less Capital income tax (25%)	(10.629,30)
less German reunion tax (5,5%)	(584,61)
Net dividend	41.932,59
(2) Earnings reserves	0,00
add Reserves along § 150 AktG	0,00
Total of flow to reserves	0,00

Exhibit 2: Tax schedule

Accordingly the statement of comprehensive income looks as in exhibit 14:

**Eversdal AG's
STATEMENT of COMPREHENSIVE INCOME
for 20X6**

	20X6
	[EUR]
Revenue	3.500.000,00
Other Income	
Changes in Inventory of Finished Goods and Work in Progress	
Work Performed by the Entity and Capitalized	<u>3.500.000,00</u>
Raw Material and Consumables Used	(300.000,00)
Employee Benefits Expense	(1.290.000,00)
Depreciation and Amortisation Expense	(560.000,00)
Impairment of Property, Plant and Equipment	(45.000,00)
Other Expenses	(1.090.000,00)
Finance Costs	0,00
Share of Profit of Associates	
Profit Before Taxation (EBT)	<u>215.000,00</u>
Income Tax Expenses	(67.133,75)
Deferred Tax Income/Expense	
<i>Profit for the Period (EAT)</i>	<u>147.866,25</u>
 APPROPRIATE SECTION:	
German Legal Reserves	0,00
Dividend to Preference Shareholders	15.000,00
Dividend to Ordinary Shareholders	53.146,50
Earnings Reserves	0,00
Retained Earnings	<u>79.719,75</u>
Appropriated Profit	<u>147.866,25</u>

Exhibit 3: Statement of comprehensive income

The bookkeeping entry for the appropriation of profit is:

CR R/E	68,146.50 EUR
DR A/P preference dividend	15,000.00 EUR
DR A/P ordinary dividend	53,146.50 EUR