

Aufgabe QR-6.2: Jahresabschluss

(Exercise on Full Set of Financial Statements)

(This task refers to chapter 6 but contains aspects of IAS 40 (pg. 142f.) and IAS 7 (chapter 10), and equity (chapter 11).)

Language school HANGOGOH HAKQUO Ltd. offers language classes on a course basis. The business was established in 20X2 and balance sheet as at 31.12.20X5 looks as below:

Hangogoh Hakquo Ltd.'s B/S as at 31.12.20X5			
A			C,L
<i>N-cur Assets</i>	[EUR]	<i>SH's capital</i>	[EUR]
P,P,E	36.000	Issued capital	40.000
Int, assets		Reserves	10.000
Invest. prop.	45.000	Retained ear.	17.500
<i>cur Assets</i>		<i>Liabilities</i>	
Inventory	1.000	Int. bear. liab.	25.000
Receivables		Payables	
Perpaid exp.		Provisions	
Cash	18.000	Def. income	
		Tax liabilities	7.500
	<u>100.000</u>		<u>100.000</u>

Exhibit 1: Balance Sheet

Pls., consider the details below to set up a full set of financial statements along IAS 1 for the accounting periods 20X6 and 20X7.

(1) At the beginning of 20X2 HANGOGOH HAKQUO Ltd. bought two classrooms in a university building. The classrooms cost 90,000.00 EUR (both classrooms). Do not consider VAT. HANGOGOH HAKQUO Ltd. agreed in a contract that states the following: Half of the price was paid in 20X2 immediately at date of acquisition. The other half is to be paid off over a period of 9 years at equal amounts (5,000.00 EUR) at the end of accounting period, beginning 31.12.20X2. Interest rate is 6.5 % and to be paid at the end of accounting period for the amount of debts recorded in the books at the beginning of accounting period. For example, debts as at 1.01.20X3 were 40,000.00 EUR. So, HANGOGOH HAKQUO Ltd. wired 7,600.00 EUR to their bank. As at 1.01.20X4 mortgage is 35,000.00 EUR. (Note, debts shown in the balance sheet only contain the mortgage, the interest payments are expensed each year and do not count as long term liability. Furthermore, debts were not shown at present value but at settlement values.)

(2) One classroom is not yet in use. HANGOGOH HAKQUO Ltd. is in negotiation with the School of English KENT Pty Ltd. who wants to rent the classroom from 20X7 onwards. The rent payment agreed is 500.00 EUR per month, there is no VAT is to be considered. Investment property is valued on a fair value basis. Market value for classrooms did not change for accounting period 20X6 and 20X7.

- (3) Property, plant, and equipment consist of the classroom only. Consider cost model and depreciate classroom along straight line method. Useful life is estimated to be 20 years.
- (4) In 20X6 and 20X7 HANGOGO HAKQUO runs 80 courses each year. Assume each class has 15 students. Revenue for each class is 240.00 EUR/student, the amount includes 20 % VAT. Students pay on cash. The student fee includes the text book, see below.
- (5) HANGOGO HAKQUO Ltd. gives text books to their students. One book is purchased for 12.00 EUR. The amount contains VAT 20 %. At the beginning of 20X6 there are 100 books on stock. (see inventories). At the end of 20X6 there are no books on stock, but one year later there were 200 books left over.
- (6) HANGOGO HAKQUO Ltd. pays their teachers 1,800.00 EUR per course. Payments are on cash. As all teachers are freelancers, HANGOGO HAKQUO Ltd. does not care about taxation. Admin expenses totals to 50,000.00 EUR each year. They contain wages for school secretary and manager. Do not consider VAT or any further taxes.
- (7) All taxes and dividends are to be paid in the next accounting period. That is with VAT (VAT rate 20 %) and income taxes (30 %).
- (8) Appropriation of distributable income is at a ratio 50 : 50 as reserves : dividend. The profit for 20X5 is carried forward to 20X6.

Required: Set up full set of financial statements for 20X7. The statements have to display amounts for 20X6 as comparative information. Follow IAS 1.

Lösung: (Solution)

- (1) Tax payment

DR Tax liabilities	7,500.00 EUR
CR Cash	7,500.00 EUR

- (2) Financing of building. Because only 50% of building is financed by loan opening value for 20X2 was 45,000.00 EUR. For 20X6 it is 25,000.00 accordingly. Interest is $25,000 \cdot 0.065 = 1,625.00$ EUR.

DR Interest	1,625.00 EUR
DR Interest bearing liabilities	5,000.00 EUR
CR Cash	6,625.00 EUR

- (3) The other classroom is accounted for as investment property. There is no depreciation to be considered in 20X6.
- (4) There is no change in carrying amount of classroom. Along fair value model there are no bookkeeping entries required.

(5) Depreciation of classroom in use. The classroom used is part of P, P, E. Depreciation charge for one accounting period is $45,000 / 20 = 2,250.00$ EUR/y.

DR Depr	2,250.00 EUR
CR Acc Depr	2,250.00 EUR

(6) Revenue for 20X6

The revenue is $80 \cdot 15 \cdot 240 = 288,000.00$ EUR.

DR Cash	288,000.00 EUR
CR VAT	48,000.00 EUR
CR Revenue	240,000.00 EUR

(7) The books used for the classes are to be purchased or were taken from stock. The amount of purchases is: $80 \cdot 15 - 100 = 1,100$ books.

DR Purchase	11,000.00 EUR
DR VAT	2,200.00 EUR
CR Cash	13,200.00 EUR

(8) Teachers salary is related to the amount of classes given. It is $80 \cdot 1,800 = 144,000.00$ EUR.

DR Wages	144,000.00 EUR
CR Cash	144,000.00 EUR

(9) Wages for administration is 50,000.00 EUR (given).

DR Wages	50,000.00 EUR
CR Cash	50,000.00 EUR

Computation of profit gives a pretax profit of 30,125.00 EUR. After deduction of income tax (tax rate is 30%) the remaining amount EAT is: $30,125 - 9,037.50 = 21,087.50$ EUR. Check the P/E account being credited. The amount available for appropriation of profit contains EAT for 20X6 plus profit carried forward from previous years. Available for distribution is $17,500 + 21,087.50 = 38,587.50$ EUR. Appropriation is at a ratio 50 : 50. So, $38,587.50 / 2 = 19,293.75$ EUR goes to reserves and to accounts payables. A/P is the dividend to shareholders that will be paid in 20X7, see (11).

The accounts for 20X6 are displayed below:

<table> <tr><th>D</th><th>PPE</th><th>C</th></tr> <tr><td>OV</td><td>45.000,00</td><td>c/d 45.000,00</td></tr> <tr><td>b/d</td><td>45.000,00</td><td></td></tr> </table>	D	PPE	C	OV	45.000,00	c/d 45.000,00	b/d	45.000,00		<table> <tr><th>D</th><th>IP</th><th>C</th></tr> <tr><td>OV</td><td>45.000,00</td><td>c/d 45.000,00</td></tr> <tr><td>b/d</td><td>45.000,00</td><td></td></tr> </table>	D	IP	C	OV	45.000,00	c/d 45.000,00	b/d	45.000,00		<table> <tr><th>D</th><th>Inv</th><th>C</th></tr> <tr><td>OV</td><td>1.000,00</td><td>T/A 1.000,00</td></tr> <tr><td></td><td></td><td></td></tr> </table>	D	Inv	C	OV	1.000,00	T/A 1.000,00																																										
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Exhibit 2: Accounts after appropriation of profit

During accounting period 20X7 the following entries are relevant:

(10) Payment for income tax 20X6

DR Tax liabilities	9,037.50 EUR
CR Cash	9,037.50 EUR

(11) Payment of Dividend

DR A/P	19,293.75 EUR
CR Cash	19,293.75 EUR

(12) Payment for VAT

DR VAT	45,800.00 EUR
CR Cash	45,800.00 EUR

(13) Interest and pay off for bank loan. The debts at the beginning of period was 20,000.00 EUR. Accordingly, interest is $20,000 \cdot 0.065 = 1,300.00$ EUR. Pay off is 5,000.00 EUR like in 20X6.

DR Interest	1,300.00 EUR
DR Interest bearing liabilities	5,000.00 EUR
CR Cash	6,300.00 EUR

(14) Rent income received by tenant KENT Pty Ltd. $500 \cdot 12 = 6,000.00$ EUR. No VAT to be considered.

DR Cash	6,000.00 EUR
CR Rent income	6,000.00 EUR

(15) Depreciation of classroom in use. Depreciation charge is 2,250.00 EUR.

DR Depr	2,250.00 EUR
CR Acc Depr	2,250.00 EUR

(16) Revenue from courses: $80 \cdot 15 \cdot 240 = 288,000.00$ EUR.

DR Cash	288,000.00 EUR
CR VAT	48,000.00 EUR
CR Revenue	240,000.00 EUR

(17) Books purchased have to contain those ones being on stock at the end of year: $80 \cdot 15 + 200 = 1,400$ books.

DR Purchase	14,000.00 EUR
DR VAT	2,800.00 EUR
CR Cash	16,800.00 EUR

(18) Salary, like 20X6

DR Wages	144,000.00 EUR
CR Cash	144,000.00 EUR

(19) Administration, like 20X6

DR Wages	50,000.00 EUR
CR Cash	50,000.00 EUR

Computation of profit gives a pretax profit of 36,450.00 EUR. After deduction of income tax (tax rate is 30%) the remaining amount EAT is: $36,450 - 10,935 = 25,515.00$ EUR. Check the P/E account being credited. The amount available for appropriation of profit is 25,515.00 EUR. Appropriation is at a ratio 50 : 50. So, $25,515 / 2 = 12,757.50$ EUR goes to reserves and to accounts payables. A/P is the dividend to shareholders that will be paid in 20X8.

D		PPE	C	
OV	45.000,00	c/d	45.000,00	
b/d	45.000,00			

D		IP	C	
OV	45.000,00	c/d	45.000,00	
b/d	45.000,00			

D		Inv	C	
OV	0,00	c/d	2.000,00	
T/A	2.000,00		2.000,00	
b/d	2.000,00			

D		SCap	C	
c/d	40.000,00	OV	40.000,00	
		b/d	40.000,00	

D		Res	C	
		b/d	29.293,75	
c/d	42.051,25	R/E	12.757,50	
	42.051,25		42.051,25	
		b/d	42.051,25	

D		Cash	C	
b/d	84.675,00	(10)	9.037,50	
(14)	6.000,00	(11)	19.293,75	
(16)	288.000,00	(12)	45.800,00	
		(13)	6.300,00	
		(17)	16.800,00	
		(18)	144.000,00	
		(19)	50.000,00	
		c/d	87.443,75	
			378.675,00	
b/d	87.443,75		378.675,00	

D		IBL	C	
(13)	5.000,00	b/d	20.000,00	
c/d	15.000,00			
	20.000,00		20.000,00	
		b/d	15.000,00	

D		Tax liab	C	
(10)	9.037,50	b/d	9.037,50	
c/d	10.935,00	P&L-7	10.935,00	
	19.972,50		19.972,50	
		b/d	10.935,00	

D		Inter	C	
(13)	1.300,00	P&L-7	1.300,00	

D		Acc depr	C	
		b/d	11.250,00	
c/d	13.500,00	(15)	2.250,00	
	13.500,00		13.500,00	
		b/d	13.500,00	

D		Depr	C	
(15)	2.250,00	P&L-7	2.250,00	

D		Rev	C	
T/A	240.000,00	(16)	240.000,00	

D		Wages	C	
(8)	144.000,00	P&L-7	194.000,00	
(9)	50.000,00			
	194.000,00		194.000,00	

D		Purch	C	
(7)	14.000,00	T/A	14.000,00	

D		VAT	C	
(12)	45.800,00	OV	45.800,00	
(17)	2.800,00	(16)	48.000,00	
c/d	45.200,00			
	93.800,00		93.800,00	
		b/d	45.200,00	

D		T/A	C	
Purch	14.000,00	Rev	240.000,00	
GP	228.000,00	Inv	2.000,00	
	242.000,00		242.000,00	
P&L-7	228.000,00	b/d	228.000,00	

D		P&L-6	C	
Inter	1.300,00	T/A	228.000,00	
Depr	2.250,00	Rent in	6.000,00	
Wages	194.000,00			
NP	36.450,00			
	234.000,00		234.000,00	
Tax lia	10.935,00	b/d	36.450,00	
R/E	25.515,00			
	36.450,00		36.450,00	

D		R/E	C	
		OV	0,00	
c/d	25.515,00	P&L-7	25.515,00	
	25.515,00		25.515,00	
Res	12.757,50	b/d	25.515,00	
A/P	12.757,50			
	25.515,00		25.515,00	

D		A/P	C	
(11)	19.293,75	b/d	12.757,50	
c/d	12.757,50	R/E	12.757,50	
	32.051,25		25.515,00	
		b/d	12.757,50	

D		Rent in	C	
P&L-7	6.000,00	(14)	6.000,00	

Exhibit 3: Accounts after appropriation of profit for 20X7

See below the income statement as at 31.12.20X7:

Hangogoh Hakquo Pty Ltd's I/S for 20X7

	20X7	20X6
	[EUR]	[EUR]
Revenue	240.000,00	240.000,00
Other income	6.000,00	
Changes in inventory of finished goods and work in progress		
Work performed by the entity and capitalized		
<i>Total</i>	<u>246.000,00</u>	<u>240.000,00</u>
Raw material and consumables used	(12.000,00)	(12.000,00)
Employee benefits expense	(194.000,00)	(194.000,00)
Depreciation and amortisation expense	(2.250,00)	(2.250,00)
Impairment of property, plant and equipment		
Other expenses		
Finance costs	(1.300,00)	(1.625,00)
Share of profit of associates		
Profit before taxation	<u>36.450,00</u>	<u>30.125,00</u>
Income tax expenses	(10.935,00)	(9.037,50)
Deferred tax income/expense		
Profit for the period	<u>25.515,00</u>	<u>21.087,50</u>

Exhibit 4: Income statement

Hangogoh Hakquo Pty Ltd's B/S as at 31.12.20X7

	20X6	20X7
	[EUR]	[EUR]
Non-current assets		
Property, plant and equipment	31.500,00	33.750,00
Investment property	45.000,00	45.000,00
Intangible assets		
Financial assets		
Investment accounted [...]		
<i>Total of non-current assets</i>	<u>76.500,00</u>	<u>78.750,00</u>
Current assets		
Inventories	2.000,00	
Trade and other receivables		
Cash and cash equivalents	87.443,75	84.675,00
Prepaid expenses		
<i>Total of current assets</i>	<u>89.443,75</u>	<u>84.675,00</u>
Total assets	<u>165.943,75</u>	<u>163.425,00</u>
Liabilities		
[...] Interest bearing liabilities	15.000,00	20.000,00
Trade and other payables	57.957,50	65.093,75
Provisions		
Liabilities and assets [...] IAS 12	10.935,00	9.037,50
Deferred tax liabilities [...] IAS 12		
Deferred income		
<i>Total of liabilities</i>	<u>83.892,50</u>	<u>94.131,25</u>
Capital		
Issued capital	40.000,00	40.000,00
Other reserves	42.051,25	29.293,75
Retained earnings	0,00	0,00
<i>Total of shareholder's equity</i>	<u>82.051,25</u>	<u>69.293,75</u>
Total equity and liabilities	<u>165.943,75</u>	<u>163.425,00</u>

Exhibit 5: Balance sheet as at 31.12.20X7

Hangogoh Hakquo Pty Ltd's CFS for 20X7

	20X7	20X6
	[EUR]	[EUR]
CF from operating activities		
Income tax payment	(7.500,00)	(9.037,50)
VAT payment		(45.800,00)
Purchase	(13.200,00)	(16.800,00)
Wages	(194.000,00)	(194.000,00)
Revenue	288.000,00	6.000,00
Rent income		288.000,00
	<u>73.300,00</u>	<u>28.362,50</u>
CF from investing activities		
Investment	<u>0,00</u>	<u>0,00</u>
	0,00	0,00
CF from financing activities		
Bank rate	(6.625,00)	(6.300,00)
Dividend to SHs		(19.293,75)
	<u>(6.625,00)</u>	<u>(25.593,75)</u>
Total cash flow:	<u>66.675,00</u>	<u>2.768,75</u>

Exhibit 6: Cash Flow Statement for 20X7**Hangogoh Hakquo Pty. Ltd's SCE for 20X7**

	Issued Capital	Earnings Reserves	Retained Earnings	Total Shareholders' Equity
Equity as at 1.01.20X6	40.000,00	10.000,00	17.500,00	67.500,00
Profit 20X6			21.087,50	21.087,50
Appropriation of Profit		19.293,75	(38.587,50)	(19.293,75)
<i>Equity as at 31.12.20X6</i>	<i>40.000,00</i>	<i>29.293,75</i>	<i>0,00</i>	<i>69.293,75</i>
Profit 20X7			25.515,00	25.515,00
Appropriation of Profit		12.757,50	(25.515,00)	(12.757,50)
<i>Equity as at 31.12.20X7</i>	<i>40.000,00</i>	<i>42.051,25</i>	<i>0,00</i>	<i>82.051,25</i>

Exhibit 7: Statement of changes in equity for 20X7