

Task IM-10.28: Statement of Cash Flows

HELLERAU Ltd. is a hotel business. It is founded in January 20X1 by an issue of 400,000 ordinary shares at 1.00 EUR each. The share issue is par value (no share premium).

The hotel buys a house in Dresden-Neustadt at 850,000.00 EUR. The price contains a plot of 300,000.00 EUR. The payment for the house is due on 1.07.20X1. HELLERAU Ltd. pays by bank transfer. For financing the house HELLERAU Ltd. takes a bank loan of 600,000.00 EUR. The bank loan is an annuity and is paid out to HELLERAU Ltd. on 1.04.20X1 fully. The rate of interest equals to 2.5 % and the annuity is 30,000.00 EUR/a. However, payment in the first accounting period equals to 30,000.00 EUR. The interest portion therein is calculated pro rata accurate to the months.

HELLERAU Ltd. repairs the house for 100,000.00 EUR. The bill is paid on 1.09.20X1. HELLERAU Ltd. further changes the house by building in bathrooms which costs 160,000.00 EUR. This is to be considered as a change of the property and is added to the cost of acquisition and will be subject to depreciation. The bill of 160,000.00 EUR is paid on 1.10.20X1 per bank transfer.

Consider depreciation on the building commencing on 1.10.20X1 based on straight line method over 50 years. Depreciation is pro rata accurate to the months.

During the rest of the year HELLERAU Ltd. earns a revenue of 37,500.00 EUR which is paid by the customers. Costs for the reception desk are 5,000.00 EUR/rest of the year and the laundry service costs 2,300.00 EUR/rest of the year. The laundry service is paid in the next accounting period 20X2.

Required: Prepare a statement of cash flows (IAS 7) by reconciliation of operating profits with cash flows for the accounting period 20X1. There is no appropriation of profit to be considered. Income taxes are to be paid or get refunded in the next accounting period 20X2. § 150 AktG doesn't apply. Do not consider VAT! You do not have to discount liabilities.

Solution

- (1) Issue of shares
- (2) Acquisition of the property. Building 550,000.00 EUR and the plot 300,000.00 EUR
- (3) Receiving of the bank loan 600,000.00 EUR
- (4) Payment of interest and pay-off. Interest equals to $2.5\% \times 600,000 \times 9/12 = 11,250.00 \text{ EUR}$.

DR Interest	11,250.00 EUR
DR Interest Bearing Liabilities	18,750.00 EUR
CR Cash/Bank	30,000.00 EUR

- (5) Repair
- (6) Restructuring of the house into a hotel leads to an increase of P, P, E Building account.

DR P, P, E Building	160,000.00 EUR
CR Cash/Bank	160,000.00 EUR

- (7) Depreciation on the building equals to $25\% \times (550,000 + 160,000)/50 = 3,550.00 \text{ EUR}$.

DR Depreciation	3,550.00 EUR
CR Acc Depr Building	3,550.00 EUR

(8) Revenue recognition 37,500.00 EUR.

(9) Costs for the receptionist 5,000.00 EUR paid.

(10) Recording laundry service bill.

Observe the accounts below:

D	Cash/Bank		C
(1)	400,000.00	(2)	850,000.00
(3)	600,000.00	(4)	30,000.00
(8)	37,500.00	(5)	100,000.00
		(6)	160,000.00
c/d	107,500.00	(9)	5,000.00
	<u>1,145,000.00</u>		<u>1,145,000.00</u>
		b/d	<u>107,500.00</u>

D		Issued capital		C	
c/d	<u>400,000.00</u>	(1)	<u>400,000.00</u>		
		b/d	<u>400,000.00</u>		

D	Building		C
(2)	550,000.00		
(6)	160,000.00	c/d	<u>710,000.00</u>
	<u>710,000.00</u>		<u>710,000.00</u>
b/d	710,000.00		

D	Plot		C
(2)	<u>300,000.00</u>	c/d	<u>300,000.00</u>
b/d	300,000.00		

D	Interest bearing liabilities	C	
(4)	18,750.00	(3)	600,000.00
()	15,468.75		
c/d	565,781.25		
	<u>600,000.00</u>		<u>600,000.00</u>
		b/d	<u>565,781.25</u>

Interest 20X1		
(4)	<u>11,250.00</u>	P&L <u>11,250.00</u>

D	Repair		C
(5)	<u>100,000.00</u>	P&L	<u>100,000.00</u>

D	Depr		C
(7)	<u>3,550.00</u>	P&L	<u>3,550.00</u>

D	Acc depr building		C
c/d	<u>3,550.00</u>	(7)	<u>3,550.00</u>
		b/d	3,550.00

D	Short-term liabilities		C
c/d	<u>15,468.75</u>	()	<u>15,468.75</u>
		b/d	15,468.75

D	Revenue 20X1		C
P&L	<u>37,500.00</u>	(8)	<u>37,500.00</u>

D	Receptionist expenses		C
(9)	<u>5,000.00</u>	P&L	<u>5,000.00</u>

Exhibit 1: Accounts

Exhibit 1: Accounts (continued)

Exhibit 2: Income statement

Hellerau Ltd.'s
STATEMENT of CASH FLOWS
for the period ended 31.12.20X1

<i>Cash flow from operating activities</i>		
EBT	(84,600.00)	
add: depreciation	3,550.00	
add: interest	11,250.00	
	<u>(69,800.00)</u>	
changes A/P	2,300.00	
	<u></u>	(67,500.00)
<i>Cash flow from investing activities</i>		
Investments	(850,000.00)	
	<u>(160,000.00)</u>	
		(1,010,000.00)
<i>Cash flow from financing activities</i>		
Share issue	400,000.00	
Bank loan received	600,000.00	
Annuity	<u>(30,000.00)</u>	
		970,000.00
		<u>(107,500.00)</u>

Exhibit 3: Statement of cash flows based on reconciliation