Aufgabe 9.27: Inventory

WAMBEL AG is a furniture wheel manufacturer. The company is founded on 1.01.20X2 by a share issue of 40,000 ordinary shares at 5 EUR each. The ordinary shares are issued at 5.20 EUR each.

WAMBEL AG takes a bank loan of 30,000.00 EUR on 3.01.20X2. The rate of interest is 4.00 % and the annual pay-off is 2,000.00 EUR. You do not have to discount liabilities. Interest is not linked to production.

At the beginning of the accounting period WAMBEL AG has 1,000 furniture wheels on stock which have been bought at cost of purchase of 8.15 EUR/p. WAMBEL AG produces during 20X2 12,000 further furniture wheels by 12 single job orders. The lot size always is 1,000 furniture wheels. The direct costs of every order all are 1,500 EUR/job order. The direct cost contain 2/3 materials and 1/3 labour. The manufacturing overheads linked to the accounting period 20X2 were 5,000.00 EUR which are only allocated to an extent of 95 % according to the predetermined overhead allocation rate. The manufacturing overheads are not subject to VAT. WAMBEL AG sells during a month 1,000 furniture wheels. Assume that the 12 job orders are finished on the 10th of every month and the sales takes place on the 20th of every month. The customers pay to an extent of 90% on cash. The remaining amount is still outstanding at the end of the accounting period.

WAMBEL AG runs a perpetual inventory system and applies the weighted average cost formula as the furniture wheels cannot be distinguished from each other. Furniture wheels are sold at a net selling price of 15.00 EUR/p. Administration costs are 25,000.00 EUR during the accounting period.

WAMBEL AG declares a highest possible dividend.

Required: Prepare a full set of financial statements for WAMBEL AG that comprises a balance sheet, an income statement, a statement of cash flows and a statement of changes in equity. § 150 AktG applies.

Solution:

(1) Establishment of the business by share issue $40,000 \ge 5.20 = 208,000.00 \text{ EUR}$.

DR Cash/Bank	208,000.00	EUR
CR Issued Capital	200,000.00	EUR
CR Capital Reserves		EUR

(2) Taking the bank loan

DR	Cash/Bank	30,000.00	EUR
CR	Interest Bearing Liab	30,000.00	EUR

(3) Paying interest and pay-off (Interest equals to $4\% \ge 30,000 = 1,200.00 \text{ EUR}$):

DR Interest	1,200.00 EUR
DR Interest Bearing Liab	2,000.00 EUR
CR Cash/Bank	3,200.00 EUR

(4) Along IFRSs short-term liabilities are to be disclosed separately from long-term liabilities.

DR	Interest	Bearing Liab	2,000.00 EUR
CR	Accounts	Payables	2,000.00 EUR

(5) WAMBEL AG buys an amount of 1,000 furniture wheels at 8.15 EUR each. 1,000 x 8.15 = 8,150.00 EUR.

DR Inventory	8,150.00 EUR
DR VAT	1,630.00 EUR
CR Cash/Bank	9,780.00 EUR

(6) Posting all direct cost together: $12 \ge 1,500 = 18,000.00 \text{ EUR}$. As 2/3 of this amount are materials there is input VAT to an extent of $18,000 \ge 66.67\% \ge 2,400.00 \text{ EUR}$ to be considered.

DR	WIP	18,000.00	EUR
DR	VAT	2,400.00	EUR
CR	Cash/Bank	20,400.00	EUR

(7) Posting overheads will be for all orders together. The amount equals to $12 \times 5,000 = 60,000.00 \text{ EUR}$.

DR Manufacturing Overheads	60,000.00 EUR
CR Cash/Bank	60,000.00 EUR

(8) The application of overheads is to an extent of 95 %: Every month WAMBEL AG applies overheads of $95\% \ge 5,000 = 4,750.00$ EUR. During the year $4,750 \ge 12 = 57,000.00$ EUR overheads apply.

DR	WIP	 57,000.00	EUR
CR	MOH	 57,000.00	EUR

(9) Underapplied overheads are transferred to the Cost of Sales account.

DR Cost of Sales		3,000.00 EUR
CR Manufacturing	Overheads	3,000.00 EUR

For the calculation of finished goods the following table applies. It considers that the cost of manufacturing always will be (1,500 + 4,750)/1,000 = 6.25 EUR/p.

	opening value	from WIP	unit costs	COS per month
1	8,150.00	6,250.00	7.20	7,200.00
2	7,200.00	6,250.00	6.73	6,725.00
3	6,725.00	6,250.00	6.49	6,487.50
4	6,487.50	6,250.00	6.37	6,368.75
5	6,368.75	6,250.00	6.31	6,309.38
6	6,309.38	6,250.00	6.28	6,279.69
7	6,279.69	6,250.00	6.26	6,264.84
8	6,264.84	6,250.00	6.26	6,257.42
9	6,257.42	6,250.00	6.25	6,253.71
10	6,253.71	6,250.00	6.25	6,251.86
11	6,251.86	6,250.00	6.25	6,250.93
12	6,250.93	6,250.00	6.25	6,250.46
		75,000.00		76,899.54

Exhibit 1: Calculation of cost of sales

(10) The bookkeeping entries are made all together:	
DR Inventory	75,000.00 EUR
CR WIP	75,000.00 EUR
(11) Selling goods: Inventory movements along exhibit 1	
DR Cost of Sales	76,899.54 EUR
CR Inventory	76,899.54 EUR
(12) Posting sales: 12,000 x 15 = 180,000.00 EUR .	
DR Cash/Bank	194,400.00 EUR
DR Accounts Receivables	21,600.00 EUR
CR VAT	36,000.00 EUR
CR Revenue	180,000.00 EUR
(13) Posting administration:	
DR Administration	25,000.00 EUR
CR Cash/Bank	25,000.00 EUR

Observe the accounts for profit calculation:

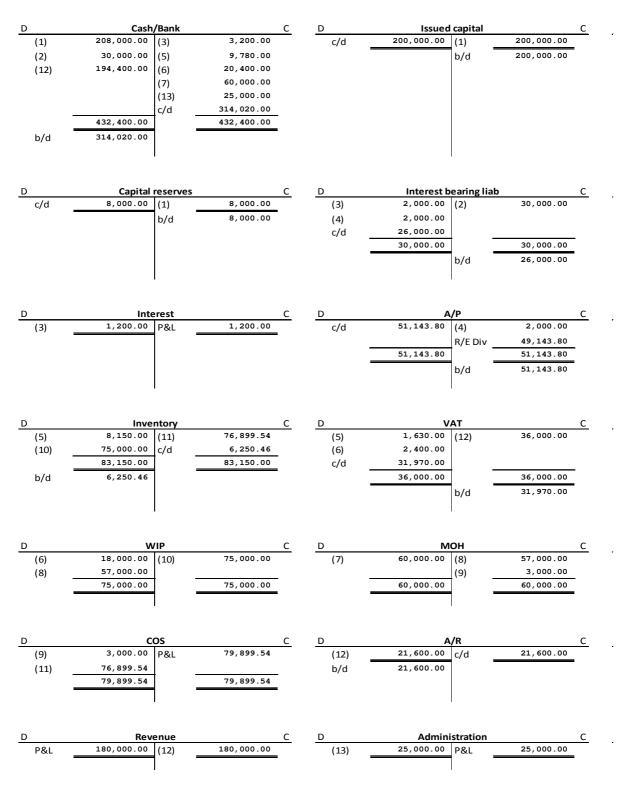


Exhibit 2: Accounts

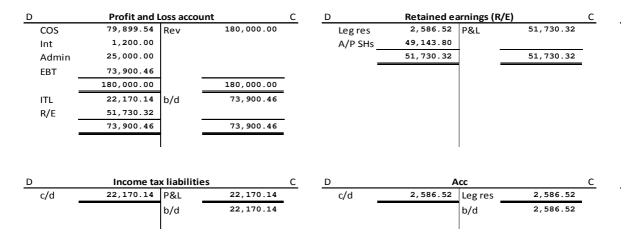


Exhibit 2: Accounts (continued)

WAMBEL AG's STATEMENT of COMPREHENSIVE INCOME for the year ended 31.12.20X2

	[EUR]
Revenue	180,000.00
Other income	
	180,000.00
COS	79,899.54
	0.00
	0.00
Other expenses	25,000.00
Earnings before int and taxes (EBIT)	75,100.46
Interest	1,200.00
Earnings before taxes (EBT)	73,900.46
Income tax expenses	22,170.14
Deferred taxes	
Earnings after taxes (EAT)	51,730.32
to reserves (§ 150 AktG)	2,586.52
to other earnings reserves	0.00
to shareholders	49,143.81
carried forward to next period	0.00
1	

Exhibit 3: Income statement

Wambel AG's						
STATEMENT of FINANCIAL POSITION						
ac at 21 12 20V2						

Α	as at 31.	12.20X2		C, L
Non-current assets	[EUR]	Owners' capital	[EUR]	
Ρ, Ρ, Ε	0.00	Share capital	200,000.00	
Intangibles		Reserves	10,586.52	
Financial assets		R/E	0.00	
Current assets		Liabilities		
Inventory	6,250.46	Interest bear liab	26,000.00	
A/R	21,600.00	A/P	83,113.80	
Prepaid expenses	0.00	Provisions		
Cash/Bank	314,020.00	Tax liabilities	22,170.14	
	341,870.46	-	341,870.46	-

Exhibit 4: Balance sheet

Wambel AG's STATEMENT of CASH FLOWS for the period ended 31.12.20X2

Cash flow from operating acitivities		
Materials bought	(9,780.00)	
Sales	194,400.00	
Direct costs	(20,400.00)	
Overheads	(60,000.00)	
Admin	(25,000.00)	
		79,220.00
Cash flow from investing activities		
Investments		
		0.00
Cash flow from financing activities		
Share issue	208,000.00	
Bank loan received	30,000.00	
Interest	(1,200.00)	
Pay-off	(2,000.00)	
		234,800.00
	_	314,020.00
	-	

Exhibit 5: Statement of cash flows

Wambel AG's STATEMENT of CHANGES in EQUITY as at 31.12.20X2

	Share capital	Reserves	R/E	total
as at 1.01.20X2	200,000.00	8,000.00		208,000.00
Profit 20X2			51,730.32	51,730.32
Legal reserves		2,586.52	(2,586.52)	0.00
Dividend			(49,143.80)	(49,143.80)
as at 31.12.20X2	200,000.00	10,586.52	0.00	210,586.52

Exhibit 6: Statement of changes in equity