

## Chapter 15

### Financial statements and VAT

Insider Trading shows the following opening balance sheet on January 1:

Fixed assets		5,000
Inventory	500 units at \$5	2,500
Prepaid rent		450
VAT receivable		500
Bank		500
		<b>8,950</b>
Equity		5,950
Loan		2,000 (10% interest)
Trade Payables		1,000
		<b>8,950</b>

Products are bought and sold for \$5 and \$7 a piece respectively. These prices do not include the VAT of 20%. The loan must be paid back in 5 equal annual installments.

During the coming year the following takes place:

- 2,000 units are sold. Customers have paid only 50% of the amount.
- Original trade payables account is paid.
- 3,000 units are purchased. Only \$100 remains unpaid at year end.
- Rent is \$150 per month. At the end of the year, the prepaid rent account is \$300.
- Annual depreciation on fixed assets is \$800.
- The interest and the annual pay back on the loan are paid at year end.
- The owners receive \$500 from this year's profits

### Give the following

- The income statement for this year.
- The cash flow statement this year.
- The balance sheet at December 31.
- What problem does this company have? What would you do differently?

### Solutions Financial Statements and VAT

#### Income statement

Sales	14,000
Cos	(10,000)
Rent	(1,800)
Depreciation	(800)
<b>Ebit</b>	<b>1,400</b>
Interest	(200)
<b>Profits</b>	<b>1,200</b>
Dividend	500
Retain	700

### Cash Flow

Receipts	8,400
Purchase	(17,900)
Payables	(1,000)
Rent	(1,650)
Loan pay back	(400)
Interest	(200)
Dividend	(500)
<b>Net Cash Flow</b>	<b>(13,250)</b>

### Balance sheet

Fixed	5,000 - 800	4,200
Inventory	2,500 + 5,000	7,500
Receivables	0.5*14,000*1.2	8,400
VAT rec	500 + 3,000*5*0.2	3,500
Prepaid Rent		300
<b>Total</b>		<b>23,900</b>
Equity	5,950 + 700	6,650
Loan	2,000 - 400	1,600
Trade Pay		100
VAT pay	14,000*0.2	2,800
Bank	500 - 13,250	12,750
<b>Total</b>		<b>23,900</b>

*Profit is OK*

1,200 profit on original equity investment of 5,950. So ROE =  $1,200/5,950 = 20\%$ .

*Problem is cash flow*

- Too much credit for customers.
- Hardly any credit from supplier.
- Buying too many products.