

Monyetla Project – Accounting Gr 12

Lesson 2: Companies: Adjustments, Income Statement and Notes

EXAMPLE: TXN LIMITED

COMPANIES – INCOME STATEMENT AND NOTE

(60 marks; 48 minutes)

You are provided with information extracted from the books of TXN Limited on 29 February 2012. The company has an authorised ordinary share capital of 2 000 000 shares.

NB: It is the policy of the business to include SARS and Shareholders for dividends in the notes.

REQUIRED

- 1.1 Prepare the Income Statement for the year ended 29 February 2012. (46)
- 1.2 Prepare the notes for Trade creditors and other payables to the Balance Sheet. (14)

INFORMATION

TXN LIMITED Pre-Adjustment Trial Balance at 29 February 2012

Balance Sheet Section	Debit	Credit
Ordinary share capital (1 550 000 ordinary shares)		3 100 000
Retained income		500 000
Mortgage Loan: PKN Bank (12% p.a.)		700 000
Fixed Deposit: LTS Bank (9% p.a.)	490 000	
Land & buildings	3 000 000	
Vehicles at cost	970 000	
Equipment at cost	300 000	
Accumulated depreciation on vehicles (1/3/2011)		228 000
Accumulated depreciation on equipment (1/3/2011)		43 700
Trading stock	268 560	
Debtors control	365 640	
Creditors control		298 720
Provision for bad debts		18 357
Bank	107 057	
SARS (Income tax)	180 000	
Nominal Accounts Section		
Sales		3 251 300
Cost of sales	1 860 000	
Debtors allowances	42 500	
Bad debts	12 360	
Rent income		248 600
Salaries and wages	451 100	
Pension fund contributions	54 300	
UIF contributions	4 500	
Interest on fixed deposit		13 050

	Debit	Credit
Interest on overdraft	2 300	
Bad debts recovered		15 000
Sundry expenses	261 910	
Dividends on ordinary shares	46 500	
	8 416 727	8 416 727

Adjustments and additional information

1. A disgruntled customer returned goods that he claimed were not in accordance with his order. These were sold on credit for R36 000 and had a mark-up of 25% on the cost price. The bookkeeper omitted to record this.
2. G Gary, who owed the company R12 500, went bankrupt. From his insolvent estate the company received 40 cents in a rand. The balance of his account has to be written off as irrecoverable. No entries were made.
3. Provision for bad debts must be adjusted to 5% of outstanding debtors.
4. The fixed deposit was increased by R200 000 on 1 December 2011. Provide for outstanding interest on the fixed deposit.
5. The bookkeeper inadvertently omitted to record an invoice for R10 800 for goods purchased from Goldfields Ltd.
6. Trading stock on hand according to the physical stock count amounted to R280 160.
7. Rent income was increased by 10% on 1 November 2011. The February 2012 rent is outstanding.
8. The insurance amount includes an annual premium of R24 000 covering the period 1 October 2011 until 30 September 2012 for insurance taken on the delivery vehicle. The insurance contract was cancelled on 31 December 2011 and the insurer agreed to refund the premiums for the unexpired period of the contract. Insurance forms part of sundry expenses.
9. K Kwatsman, a newly appointed assistant warehouse clerk, was omitted from the Salaries Journal in error.

Gross salary	18 000
PAYE	4 500
Pension fund	8%
UIF	1%
Nett salary	?

The company contributes 12% to the employee's pension fund and 1% to the UIF.

10. An additional delivery van was bought for R400 000 from WKM Human Auto on 1 June 2011 and was recorded accordingly. Depreciation on vehicles is written off at 20% per annum on the cost price.

11. Old equipment originally costing R30 000 was sold for R24 000 to M Mathata on 31 August 2011. The accumulated depreciation on this computer as at 1 March 2011 was R5 700. This transaction was not recorded. Depreciation on equipment is written off at 10% per annum on the diminished balance.
12. A warehouse was bought for R500 000 from Sekunjalo Property Developers. An additional loan was secured for this purpose from PKN Bank for the full amount at an interest rate of 12% p.a. on 1 September 2011. This transaction was properly recorded. Provide for outstanding interest on the loan.
13. Stationery to the value of R52 000 were stolen during February 2012. The insurance company will pay R44 000 of the damaged stationery during March 2012. Stationery forms part of sundry expenses.
14. The amount of income tax was calculated at R195 690.
15. The directors recommended a final dividend of 5 cents per share.

TXN LIMITED

COMPANIES – INCOME STATEMENT AND NOTE

(60 marks; 48 minutes)

TXN LIMITED
INCOME STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2012

Sales (3 251 300	
Cost of sales (1 860 000	
Gross profit	
Other Income	
Rent income (248 600	
Bad debts recovered (15 000	
Expenses	
Bad debts (12 360	
Wages and salaries (451 100	
Pension fund contributions (54 300	
UIF contributions (4 500	
Sundry expenses (261 910	
Operating profit	
Interest income (13 050	
Profit before interest expense	
Interest expense (2 300	
Profit before tax	
Net profit for the year	

1.2.2 Trade creditors and other payables

Creditors control (298 720	
Accrued expenses	
SARS (PAYE)	4 500

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TOTAL MARKS		60
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TXN LIMITED

COMPANIES – INCOME STATEMENT AND NOTE

(60 marks; 48 minutes)

TXN LIMITED
INCOME STATEMENT FOR THE YEAR ENDED 29 FEBRUARY 2012

Sales (3 251 300 – 42 500 ✓ – 36 000 ✓) 78 500 (2 marks)	<input checked="" type="checkbox"/>	3 172 800
Cost of sales (1 860 000 – 28 800 ✓)	<input checked="" type="checkbox"/>	(1 831 200)
Gross profit Operation – must deduct 6	<input checked="" type="checkbox"/>	1 341 600
Other Income		291 215
Rent income (248 600 + 24 200 ✓ ✓)	<input checked="" type="checkbox"/>	272 800
Bad debts recovered (15 000)	<input checked="" type="checkbox"/>	15 000
Provision for bad debts adjustment (18 357 – 15 857) * <input checked="" type="checkbox"/> any figure	<input checked="" type="checkbox"/> *	2 500
Profit on sale of asset (30 000 ✓ – 24 000 ✓ – 6 915 ✓) [5 700 + 1 215] 10	<input checked="" type="checkbox"/>	915
Gross operating income		1 632 815
Expenses		(976 425)
Bad debts (12 360 + 7 500 ✓)	<input checked="" type="checkbox"/>	19 860
Wages and salaries (451 100 + 18 000 ✓)	<input checked="" type="checkbox"/>	469 100
Pension fund contributions (54 300 + 2 160 ✓)	<input checked="" type="checkbox"/>	56 460
UIF contributions (4 500 + 180 ✓)	<input checked="" type="checkbox"/>	4 680
Sundry expenses (261 910 – 18 000 ✓ – 52 000 ✓)	<input checked="" type="checkbox"/>	191 910
Depreciation (114 000 ✓ + 60 000 ✓) + (1 215 ✓ + 23 200 ✓) [174 000 + 24 415] * <input checked="" type="checkbox"/> any figure	* <input checked="" type="checkbox"/>	198 415
Trading stock deficit (268 560 + 28 800 + 10 800 – 280 160)	<input checked="" type="checkbox"/> *	28 000
Loss due to theft (52 000 – 44 000)	<input checked="" type="checkbox"/>	8 000
Operating Profit Operation 20	<input checked="" type="checkbox"/>	656 390
Interest income (13 050 + 13 050 ✓ + 4 500 ✓) OR (13 050 + 17 550 ✓ ✓)	<input checked="" type="checkbox"/>	30 600
Profit before interest expense		686 990
Interest expense (2 300 + (12 000 ✓ + 42 000 ✓) OR (2 300 + (24 000 ✓ + 30 000 ✓)	<input checked="" type="checkbox"/>	(56 300)
Profit before tax Operation	<input checked="" type="checkbox"/>	630 690
Income tax	<input checked="" type="checkbox"/>	(195 690)
Net profit for the year Operation 10	<input checked="" type="checkbox"/>	435 000

 One part correct or adjustment use

NOTE: TRADE AND OTHER PAYABLES

Creditors' control (298 720 + 10 800✓)	<input checked="" type="checkbox"/>	309 520
SARS (PAYE)		4 500
Accrued expenses (24 000 + 30 000) OR Figure of interest on loan – R2 300	<input checked="" type="checkbox"/>	54 000
Pension fund (1 440 ✓+ 2 160✓)	<input checked="" type="checkbox"/>	3 600
UIF (180 ✓+ 180✓)	<input checked="" type="checkbox"/>	360
Creditors for salaries (18 000 – 4 500 – 1 440 – 180)	✓	11 880
SARS - Income Tax (195 690✓ – 180 000✓)	<input checked="" type="checkbox"/>	15 690
Shareholders for dividends (1 550 000 x 0,05) → This is only the final dividend not paid yet	✓	77 500
		469 550

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TOTAL MARKS		60
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RETAINED INCOME

Balance beginning of year		500 000
Net profit after tax	See Income Statement	435 000
Shares repurchased		(xx)
Dividends on ordinary shares		(124 000)
Interim dividends paid → given in the Pre-Adjustment TBalance		46 500
Final dividends declared → see Note for Trade and other payables		77 500
Balance on 29 February 2020		811 000