

Monyetla Project – Accounting Gr 12

Lesson 2: Companies: Adjustments, Income Statement and Notes

ACTIVITY 1: ADAMS LIMITED

COMPANIES – INCOME STATEMENT AND NOTES

(62 marks; 50 minutes)

You are provided with information extracted from the books of Adams Limited for the financial year ending 28 February 2017.

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 28 February 2017. (43)
- 1.2 Prepare the note for Trade and other payables to the Balance Sheet. (19)

INFORMATION:

ADAMS LIMITED

EXTRACT FROM THE PRE-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 2017

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|---------------------------------------|--------------|
| Balance sheet accounts section | |
| Ordinary share capital | ? |
| Retained income (01/03/2016) | 850 000 |
| Vehicles | 2 800 000 |
| Equipment | 950 000 |
| Accumulated depreciation on vehicles | 1 350 000 |
| Accumulated depreciation on equipment | 450 000 |
| Trading stock | 1 510 000 |
| Debtors control | 458 500 |
| Provision for bad debts (01/03/2016) | 21 900 |
| Creditors control | 660 000 |
| Pension fund | 45 800 |
| SARS (PAYE) | 64 100 |
| SARS (Income tax) | (dr) 120 000 |
| Nominal accounts section | |
| Sales | 6 300 000 |
| Cost of sales | 2 900 000 |
| Debtors allowances | 23 000 |
| Auditors fee | 38 900 |

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| Directors fee | 805 000 |
| Salaries | 1 200 000 |
| Rent income | 108 000 |
| Pension fund contribution | 32 400 |
| Interest on loan | 45 600 |
| Consumable goods | 21 800 |
| Bank charges | 7 300 |
| Discount allowed | 6 300 |
| Bad debts | 16 800 |
| Dividends on ordinary shares | 157 500 |

ADJUSTMENTS AND ADDITIONAL INFORMATION:

- On 27 February 2017 a credit note was issued to a debtor for R70 000 for faulty goods delivered to him. The cost price of the goods was R45 000. Adams Ltd returned the faulty goods immediately to their suppliers and received a debit note from them. No entry was made of this transaction.
- The Bank Statement was received after the Pre-adjustment Trial Balance was set, and the following appears on the Bank Statement:
 - A cheque for R350 received from a debtor, was dishonoured by the bank. The cheque was originally to settle his debt of R380.
 - Bank charges, R860.
 - Interest on favourable bank balance, R2 300.
- The provision for bad debts must be reduced with R1 700.
- Consumable goods with the value of R16 000 was used during the year.
- The physical stock take indicates trading stock on hand on 28 February was R1 450 000.
- The company has two directors. One director's fee for February is still outstanding.
- One employee was omitted from the Salaries Journal for February 2017. His salary is still outstanding. His information is as follows:

| Deductions | | Employer's contribution | Net salary |
|------------|--------------|-------------------------|------------|
| PAYE | Pension fund | Pension fund | |
| R2 800 | R1 900 | R3 800 | R18 600 |

- The rent for March 2017 was already received. The monthly rent increased with 10% on 1 November 2016.

9. An old vehicle was sold for R43 440 cash on 28 February 2017. No entry was made of the asset disposal. Depreciation on vehicles are calculated at a rate of 15% p.a. on cost.

The fixed asset register for the sold vehicle states the following:

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| Cost of the vehicle | R245 000 |
| Accumulated depreciation on 1 March 2016 | R169 400 |

10. Make provision for depreciation as follows:
- On vehicles at 15% p.a. on cost
 - On equipment at 10% p.a. on the diminishing balance. A new computer was bought on 1 October 2016 for R36 000. This was recorded correctly.
11. The Bank Reconciliation Statement for February indicates an outstanding cheque for R7 100. The cheque was issued to a creditor and was dated 25 March 2017.
12. Ordinary share capital
- On 1 March 2016 there were 1 250 000 ordinary shares in issue with an average price of R3,50.
 - On 31 October 2016 a further 500 000 ordinary shares were issued at R4,50 per share.
 - On 31 January 2017 80 000 ordinary shares were bought back from an unsatisfied shareholder at R4,80 per share.
13. Declare a final dividend of 25c per share on 28 February 2017.
14. Income tax was calculated at R210 198, this is 30% of the net profit. This must still be brought into account.

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| ACTIVITY 2: JIMMY LTD |
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FINANCIAL STATEMENTS: INCOME STATEMENT AND NOTES (61 marks; 50 minutes)**JIMMY LTD.**

The information relates to the financial year of Jimmy Ltd, which ended 29 February 2020.

REQUIRED:

- 2.1 Prepare the following notes to Financial Statements on 29 February 2020:
- Ordinary Share Capital (7)
 - Retained Income (10)
- 2.2 Complete the Statement of Comprehensive Income (Income Statement) for the year ended 29 February 2020. (44)

INFORMATION:**A. Extract from the records at the financial year-end:**

| | 29 February 2020 | 28 February 2019 |
|---------------------------------------|---------------------|---------------------|
| Balance Sheet accounts section | | |
| Ordinary share capital | R? | R1 275 000 |
| Retained income | ? | 28 900 |
| Mortgage loan: Leeuw Bank | ? | 76 500 |
| Debtors control | 98 750 | 118 500 |
| Provision for bad debts | ? | 3 555 |
| SARS (Income tax) | (Cr.) 27 850 | (Dr.) 19 500 |
| Shareholders for dividends | ? | 68 000 |
| Nominal accounts section | | |
| Sales | 1 800 000 | |
| Cost of sales | ? | |
| Rent Income | ? | |
| Consumable stores | 2 900 | |
| Salaries and wages | 128 450 | |
| Director's fees | 67 350 | |
| Audit fees | 5 720 | |
| Advertising | 62 545 | |
| Bad debts | 2 900 | |
| Sundry expenses | ? | |
| Interest income | 13 180 | |
| Interest on loan | ? | |

B. Extract from the Cash Flow Statement and notes on 29 February 2020:

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|---------------------------------------|----------|
| Depreciation | 78 350 |
| Income tax paid | 64 650 |
| Proceeds from the issue of new shares | 220 000 |
| Payment for shares repurchased | 120 000 |

C. Share capital:

- The authorised share capital is 400 000 ordinary shares.
- On 1 March 2019, there were 300 000 shares in issue.
- On 1 October 2019, the business repurchased 20 000 shares from the estate of a deceased shareholder at R6 per share.
- On 29 February 2020, an additional 40 000 new shares were issued at R7 per share. These shareholders do not qualify for final dividends.

D. Dividends:

- On 28 August 2019, an interim dividend of 10 cents per share was paid.
- On 29 February 2020, a final dividend of 20 cents per share was declared.

E. Additional information, including adjustments:

- (a) A profit mark-up of 80% on cost was achieved.
- (b) The unused portion of the storeroom is rented out since 1 March 2017. The lease agreement stipulates an increase of 10% p.a. effective from 1 January each year. On 1 March 2019, the monthly rent was R1 750. The rent for March 2020 was received and deposited.
- (c) Consumable stores used for the financial year amounted to R2 750.
- (d) The employer's contribution of R2 700 to the Rosa Medical Aid was omitted from the Salary Journal. The amount will be paid in March 2020. Contributions are recorded in the Salaries and wages account.
- (e) The incentive bonus of 10% of the amount exceeding R1 500 000 of annual sales, for each of the two directors, must still be taken into account.
- (f) Only 40% of the audit fees was paid. The outstanding balance will be settled on 7 June 2020.
- (g) Included in the advertising cost for the year is a 12-month campaign that was launched on 1 November 2019 on a local billboard at a cost of R43 200. Advertisements will appear every second month starting in November 2019.

- (h) A debtor, T Tello with an outstanding balance of R600 must be written off as irrecoverable.
- (i) The provision for bad debts must be decreased by R360.
- (j) Merchandise to the value of R38 000 were damaged due to a burst pipe during February 2020. The insurance company will pay R34 000 of the damaged stock during March 2020.
- (k) After all adjustments related to stock, the inventory records reflected a trading stock deficit of R23 400 on 29 February 2020.
- (l) The loan statement received from Leeuw Bank reflects the following:

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| Balance on 1 March 2019 | R 76 500 |
| Repayments during the year, including interest | 12 500 |
| Balance on 29 February 2020 | 73 180 |

Interest on loan is capitalised and has not been recorded yet.

- (m) Operating profit on sales was 22% for the year.
- (n) Sundry expenses is the missing figure in the Income Statement.

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| ACTIVITY 3: KHUMALO FASHIONS LTD |
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INCOME STATEMENT AND BALANCE SHEET**(55 marks; 44 minutes)**

The following information was taken from the books of Khumalo Fashions Ltd. The financial year ended on 28 February 2019.

REQUIRED:

- 3.1 Complete the Income Statement for the year ended 28 February 2019. Certain figures have been added in the Answer book. (40)
- 3.2 Complete the Equity and Liabilities section of the Balance Sheet on 28 February 2019. No notes are required, so all calculations must be clearly shown. (15)

INFORMATION:**BALANCES ON 28 FEBRUARY 2019**

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|--------------------------------------|--------------|
| Balance Sheet accounts | |
| Ordinary Share Capital | 1 840 000 |
| Retained Income | 213 260 |
| Provision for bad debts (1 Mar 2018) | 2 000 |
| Creditors control | 33 650 |
| Loan from director | 750 000 |
| SARS (Income tax) | Debit 74 195 |
| Nominal accounts | |
| Sales | 1 225 700 |
| Cost of sales | ? |
| Commission income | 89 200 |
| Interest income | 11 350 |
| Bank charges | 3 260 |
| Bad debts | 5 600 |
| Discount allowed | 2 940 |
| Stationery | 3 860 |
| Insurance | 14 250 |
| Directors fees | 50 000 |
| Sundry expenses | ? |

Additional information and adjustments:

1. Goods are sold at a profit mark-up percentage of 40%.
2. An annual insurance premium of R9 600 was paid and recorded on 1 June 2018.
3. The following information from the February Bank Statement must still be taken into account:
 - Bank charges, R340
 - Interest on current account, R670
 - R/D cheque from a debtor for R3 650 in settlement of his account of R4 050.
 - A cheque for stationery was entered in the journals as R778 instead of R878.
4. A debtor with an outstanding debt of R800 must be written off as irrecoverable.
5. Dresses to the value of R4 800 were damaged in transit. The insurance will cover 35% of the loss and will make a payment during March 2016. The balance is the business' loss.
6. A physical stocktake on 28 February 2019 showed:
 - Stationery on hand, R280
 - Trading stock of R3 200 could not be accounted for during the stocktake.
7. The provision for bad debts must be adjusted to R3 800.
8. Commission on certain old stock was calculated at R1 600 being 10% of the sale items. This must be adjusted to 6% due to the nature of the goods sold.
9. Provide for any outstanding directors fees.
 - The directors receive the following annual fees: G. Khumalo, R50 000 and R. Khumalo, R60 000.
 - R. Khumalo has not received any fee as yet.
 - Since 1 November 2018, R. Khumalo has been renting a house that belongs to the company. The rent of R6 000 per month is to be offset against her director's fees. This transaction was not recorded yet.
10. Operating profit on Sales for the year was calculated as 25% of Sales.
11. Tax was calculated at R78 795 for the year.
12. **Loan from director:**
 - The balance on the loan on 1 March 2018 was R844 205.
 - Interest on the loan is capitalised.
 - Payments made during the year, including interest, were R150 000.
 - A loan repayment of R120 000 will be made on 1 July 2019.
13. Dividends declared on 27 February 2019 amounted to R16 000.