

INCOME STATEMENT, NOTE TO THE BALANCE SHEET

You are provided with information relating to Telestar Limited for the financial year ended 31 December 20.6.

REQUIRED:

- 1.1 Prepare the Income Statement for the year ended 31 December 20.6. (60)
- 1.2 Prepare the Note to the Balance Sheet for Trade and Other Receivables. (10)

INFORMATION:

EXTRACT FROM PRE-ADJUSTMENT TRIAL BALANCE ON 31 DECEMBER 20.6:

Balance Sheet Accounts Section	Debit	Credit
Ordinary share capital		1 500 000
Retained income (1 January 20.6)		628 000
Land and building	3 029 275	
Vehicle	360 000	
Equipment	125 000	
Accumulated depreciation on vehicles		
Accumulated depreciation on equipment		25 000
Loan from United Bank		530 000
Debtors' control	89 000	
Creditors' control		102 200
Provision for bad debts		8 350
Trading stock	385 000	
SARS: Income tax	500 000	
Nominal Accounts Section		
Sales		8 800 000
Cost of sales	4 612 000	
Debtors' allowances	124 000	
Sundry expenses	156 300	
Bank charges	31 675	
Packing materials	25 400	
Repairs and maintenance	117 450	
Commission income		66 600
Directors' fees	770 000	
Audit fees	72 300	
Bad debts	14 600	
Rent income		87 720
Interest on current bank account		2 130
Salaries and wages	920 000	
Employer's contributions	138 000	
Dividends on ordinary shares	300 000	
	11 750 000	11 750 000

ADJUSTMENTS AND ADDITIONAL INFORMATION:

- A.** On 27 December 20.6 P Machala, a debtor, returned merchandise. A credit note for R12 900 was issued to her. (The cost price was R8 600.) No entries were made for the return of the merchandise. These items were returned to stock.
- B.** The company has three directors. Each director receives the same monthly remuneration. One of the directors did not receive his directors' fee for December 20.6.
- C.** The insolvent estate of a debtor, J Johansson, paid out 20 cents in the rand and made a direct deposit of R1 105 on 29 December 20.6. The outstanding balance must be written off. No entries were made.
- D.** The provision for bad debts must be increased to R8 700.
- E.** The stock count on 31 December 20.6 revealed:
- Trading stock R381 500
 - Packing material R2 740

- I.** An employee was left out of the Salaries Journal. His details are:

Net salary	R13 650
Deductions	R4 950
Employer's contributions	R6 750

- F.** Interest on the loan from United Bank has not been entered yet. Interest is capitalised. The loan statement received from United Bank reflected the following:

Balance on 1 January 20.6	R602 400
Repayments made during the year	R110 600
Balance on 31 December 20.6	R530 000

- G.** There was no change in the monthly rent during the financial year. The tenant paid R6 000 for repairs to the premises. As Telestar Limited is responsible for all repairs, the tenant deducted this amount from the rent, which he paid for November 20.6. The repairs have not been recorded, and the rent for December 20.6 has not been received yet.
- H.** Provide for depreciation as follows:
- On vehicles at 20% p.a. on cost.
 - On equipment at 15% p.a. on the diminishing balance method.
New equipment for R36 000 was purchased on 1 September 20.6. This purchase has not been recorded.
- I.** Income tax for the year was correctly calculated at R490 465.

1.1

**TELESTAR LIMITED
INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 20.6**

Sales	
Cost of sales	
Gross profit	
Other income	
Commission income	
Rent income	
Gross income	
Operating expenses	
Sundry expenses	
Bank charges	
Packing material	
Repairs and maintenance	
Director's fees	
Audit fees	
Bad debts	
Salaries and wages	
Employer's contributions	
Operating profit	
Profit before interest expense	
Net profit before tax	
Net profit after tax	

2.2 TRADE AND OTHER RECEIVABLES

Debtors' control	
Provision for bad debts	