REVISION: COMPANIES 19 SEPTEMBER 2013

Lesson Description

In this lesson we:

- Revise Year-end adjustments as well as calculations and disclosure in the Financial Statements.

Questions

Question 1

You are provided with an extract of the pre-adjustment trial balance, adjustments and additional information of JAY Ltd, on 29 February 2008. The business buys and sells office equipment. Stock is sold at a mark-up of 60% on cost.

Instructions

1.1 Prepare the following **notes** to the Balance Sheet:

a.) Inventory (5)
b.) Retained Income (5)
c.) Trade and other Payables (8)

1.2 Prepare the **Income Statement** for the year ended 29 February 2008 (62)

Information

RK LTD EXTRACT OF PRE-ADJUSTMENT TRIAL BALANCE ON 29 FEBRUARY 2008

Ordinary share capital (par value R2 each)	850 000
Ordinary Share Premium	41 200
Retained Income	52 500
Loan: XYZ Bank	110 000
Vehicles	162 000
Equipment	60 000
Accumulated depreciation on vehicles	51 200
Accumulated depreciation on equipment	38 000
Trading Stock	81 300
Debtors control	78 100
Provision for bad debts	4 100
Sars (income tax) (provisional payments)	63 420
Bank (DR)	35 539
Creditors control	6 350
Pension Fund	590
SARS (PAYE)	340
Sales	797 500
Cost of sales	335 900
Debtors allowance	8 000
Salary and wages	180 000
Pension fund contribution	13 700
Medical aid contribution	13 111
Sundry expenses	620
Packing materials	5 600
Rent income	22 000
Audit fees	8 000

Directors fees	18 000
Ordinary share dividend	12 000
Insurance	11 040
Bad debts	1 350
Interest on current account	400
Stationery	4 200
Interest on loan	10 350

Adjustment and Additional Information

1. No entry has been made for stock returned by a debtor on 25 February 2008, selling price R1 400.

2. A fire in one of the stock rooms caused R2 000 worth of damage to stock during February 2008. The insurance company has agreed to pay 75% of the loss in March 2008. The bookkeeper did not know how to record this transaction therefore no entries have been made in the books of the business.

3. A physical stock count on 29 February 2008 revealed the following stock on hand:
   Trading stock R78 500
   Stationery R420

4. Packing materials *used* during the current financial year amounted to R4 000.

5. The bookkeeper posted the salaries journal to the General ledger on the 29 February 2008. However, she forgot to take into account that a 10% increase had been granted to S.Sithole as from 1 February 2008. The following details are applicable:
   - S.Sithole earned a gross monthly salary of R9 000 on 31 January 2008.
   - 8% of his gross monthly salary is deducted for the pension fund.
   - PAYE amounts to 20% of his gross salary.
   - His increase won't affect his medical aid contributions.
   - The business contributes R1,50 for every R1 contributed by its employees to the Pension Fund.

6. A debtor whose account was written off as irrecoverable during December 2007, paid his outstanding debt of R750. No entry has been made.

7. A debtor owing R500 was declared insolvent. The business received 25c in the rand, which was recorded. No entry however was made for the bad debt.

8. Provision for bad debts must be decreased by R200.

9. Depreciation is calculated as follows:
   - Equipment 10% on carrying value
   - Vehicles 20% p.a. on cost (continued.....pto)
   - Note: A vehicle with a cost price of R40 000 was sold to one of the directors on 1 January 2008 for R22 000 cash. The accumulated depreciation of the vehicle on 1 March 2007 was R24 000.
     No entry has been made for the above.

10. Included in insurance is an amount of R2 400 paid for the period 1 January 2008 to 30 June 2008.

Question 1

Simphiwe Limited

You are provided with the Pre-Adjustment Trial Balance of Simphiwe Limited. The company buys and sells uniforms and they also repair uniforms for their customers, for which they charge a fee. These fees are credited to the Fee Income Account in the General Ledger.

Required

1.1 Refer to Information 2J below.
Calculate the profit or loss on disposal of the computer. Show workings.
You may prepare an Asset Disposal Account to identify the figure. (8)

1.2 Complete the Income Statement for the year ended 30 September 2009.
The notes to the financial Statement are NOT required (47)

Information

SIMPHIWE LTD
PRE-ADJUSTMENT TRIAL BALANCE AS AT 30 SEPTEMBER 2009

	DEBIT	CREDIT
Balance Sheet Accounts Section	**R**	**R**
Ordinary share capital		1 300 000
Share premium		170 730
Retained income (1 October 2008)		170 000
Loan from Stay Bank		90 000
Land and buildings at cost	1 628 520	
Vehicles at cost	220 000	
Equipment at cost	190 000	
Accumulated depreciation on vehicles (1 October 2008)		41 000
Accumulated depreciation on equipment (1 October 2008)		37 000
Debtors' control	36 600	
Creditors' control		17 960
Trading stock	479 000	
Bank		13 500
Petty cash	2 200	
SARS – Income tax	83 500	
Provision for bad debts		1 440

Nominal Accounts Section	R	R
Sales		2 720 000
Cost of sales	1 310 000	
Debtors' allowances	6 200	
Salaries and wages	162 000	
Discount allowed	905	
Fee income		104 750
Rent income		56 000
Insurance	11 000	
Sundry expenses	39 250	
Directors' fees	390 000	
Audit fees	53 705	
Consumable stores	24 000	
Interest income		2 500
Ordinary share dividends	88 000	

Adjustments

A. Prepaid expenses in respect of sundry expenses at the year- end, R3 200, have not been taken into account.

B. On 30 September 2009, R580 was received from A Ethic, whose accounthad previouslybeen writtenoff as irrecoverable. The amount was entered in the Debtors' Control column in the Cash Journal.

C. The provision for bad debts must be adjusted to R1 830.

D. There were two directors at the start of the accounting period. Directors' fees have been paid for the first half of the accounting period. On 1 April 2009, a third director was appointed. All three directors earn the same monthly fee. Provide for the outstanding fees owed to the directors.

E. Rent has been received for 14 months.

F. The following credit note was left out of the Debtors' Allowances Journal for September in error. The mark-up on goods sold was 50% on cost.

SIMPHIWE LTD — **CREDIT NOTE 4533** — **28 Sept. 2009**

Credit: Supaclean Ltd, PO Box 340, Westmead, 3610

		Unit price	Total
24	Uniforms returned	R400	R9 600
	Reduction on fee charged for repair of uniforms		R 750
			R10 350

G. A physical stock count on 30 September 2009 reflected the stock of uniforms on hand as R490 000.

H. The loan statement from Stay Bank reflected the following:

Balance at beginning of financial year	R 150 000
Repayments during the year	R 78 000
Interest capitalised	R ?
Balance at end of financial year	R 90 000

I. Depreciation on vehicles is calculated at 20% p.a. on the diminishing-balance method.

J. Depreciation on equipment is calculated at 10% p.a. on the cost price. Note that an item of equipment was taken over by one of the directors, Ivor Steele, on 30 June 2009 for personal use for R800 cash. The relevant page from the Fixed Asset Register is provided below. No entries have been made in respect of the disposal of this asset.

FIXED ASSET REGISTER **Page 12**

Item: VYE Computer **Ledger Account:** Equipment

Date Purchased: 1 April 2006 **Cost Price:** R22 000

Depreciation Policy: 10% p.a. on cost price

Date	Depreciation calculations	Current Depreciation	Accumulated Depreciation
2006 30 September	R22 000 x 10% x 6/12	R1 100	R1 100
2007 30 September	R22 000 x 10% x 12/12	R2 200	R3 300
2008 30 September	R22 000 x 10% x 12/12	R2 200	R5 500
2009 30 June	?	R ?	R ?

K. Income tax for the year amounts to R63 280.