PRELIM REVIEW 2013 — 10 OCTOBER 2013

Lesson Description

In this lesson we:

- Revise Income Statements by looking at a question from the GDE Prelim Examination 2013.

Questions

Question 1

(Adapted from GDE, Preparatory Exam 2013, Question 3.3)

You are provided with the pre-adjustment trial balance of Zap Limited. The company sells and also repairs security alarms. The company has an authorised share capital of 300 000 ordinary shares with a par value of R5 each. Their financial year ends on 30 June each year.

REQUIRED:

a.) Complete the Income Statement for the year ended 30 June 2013. [50]

b.) Prepare the Retained Income Statement note on 30 June 2013. [05]

1. PRE-ADJUSTMENT TRIAL BALANCE AS AT 30 JUNE 2013		
Balance Sheet Accounts Section	**Debit**	**Credit**
Ordinary share capital		1 100 000
Share premium		150 000
Retained income (1 July 2012)		170 000
Loan from Brain Bank		90 000
Land and buildings at cost	1 462 830	
Vehicles at cost	680 000	
Equipment at cost	240 000	
Accumulated depreciation (1 July 2012)		
• Vehicles		141 000
• Equipment		57 000
Debtors' control	45 000	
Creditors' control		28 920
Trading stock	400 000	
Bank		13 651
Petty cash	2 200	
SARS – Income tax	83 500	
Provision for bad debts		1 440
Nominal Accounts Section		
Sales		3 430 000
Cost of sales	1 750 000	
Debtors' allowances	9 520	
Salaries and wages (including contributions)	189 000	
Discount allowed	1 506	
Fee income		98 985
Rent income		74 000
Insurance	15 000	
Sundry expenses	79 109	
Directors' fees	258 000	
Audit fees	57 231	
Packing materials	35 000	
Interest income		7 900
Ordinary share dividends	55 000	
	5 362 896	**5 362 896**

2. Adjustments and additional information

A Goods were returned by a debtor and the necessary allowance was properly recorded. However, the entry for the cost of sales amounting to R2 700 was omitted.

B The following was established from physical stock-taking at the end of the year:

- Trading Stock on hand R407 000
- Packing material used during the year R 26 500

C Provision for bad debts must be adjusted to R1 830

D No entry has been made for a cheque received from X. Ndebele, a debtor, for R810. This cheque was received as a dividend of 30 cents in the Rand paid by his insolvent estate. The balance of his account must be written off.

E Insurance included an amount of R3 600 for the period 1 October 2012 to 30 September 2013.

F The auditor was owed R8 000. A cheque dated 15 March 2013 was issued to him. The cheque was properly recorded.

G Provide for depreciation for the year as follows:

- Equipment R11 000
- Vehicles R69 699

Fixed Assets Register	Cost	Accumulated Depreciation	Carrying Value
Balance [1 July 2012]	96 000	95 000	1 000
Depreciation 01 December 2012		?	
	96 000	?	?
Sold for cash			5 000
Profit or loss on sale of asset			?

H An old vehicle was sold during the year. All the necessary entries were captured except the profit or loss on sale of the asset. Depreciation was provided for at 10% p.a. on cost. The details are as follows:

I Rent income was decreased by 20% with effect from 1 January 2013. The rent for June 2013 has not yet been received.

J The loan statement from Brain Bank reflected the following:

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

K One employee's salary was not processed. All contributions made by the employer are debited to the salaries account. The details are as follows:

Gross Salary	Deductions			Contributions			
	PAYE	UIF	Pension Fund	Medical Aid Fund	UIF	Pension Fund	SDL
15 000	3 000	150	750	2 000	150	750	1% of basic salary

L A final dividend of 155 cents per share was declared.

M The income tax assessment for the year is R311 322.

Answer Book

Question 1

a.) Income Statement for the Year Ended 30 June 2013.

Sale	
Cost of sales	
Profit	
Other operating income	
Fee income	
Rent income	
Profit on sale of asset	
Trading stock surplus	
Gross operating income	
Operating expenses	
Operating profit	
Profit before interest expenses / Finance cost	
Profit before tax	
Net profit after tax	

b.) Retained Income

Retained income at the beginning of the year	
Net income after tax	
Ordinary share dividends	
Retained income at the end of the year	
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