

SESSION 3: COMPANIES FINANCIAL STATEMENTS (THE BALANCE SHEET)

KEY CONCEPTS:

In this session we will look at:

- The Balance Sheet
- Notes to the Financial Statements Trading Business

X-PLANATION

THE BALANCE SHEET

The balance sheet should include all assets, liabilities and equity information, thus reflecting the financial status of the enterprise as at a particular date.

The following are among the items included in the balance sheet:

Assets	Equity and Liabilities
Fixed assets <ul style="list-style-type: none"> • Land & Buildings • Vehicles • Equipment 	Shareholders' equity <ul style="list-style-type: none"> • Ordinary share capital • Ordinary share premium • Retained income
Financial assets <ul style="list-style-type: none"> • Fixed deposits > than 12 months • Investments 	Non-current liabilities <ul style="list-style-type: none"> • Mortgage loans > than 12 months
Current assets <ul style="list-style-type: none"> • Inventory • Receivables • Cash on hand and at the bank (includes fixed deposits < than 12 months) 	Current liabilities <ul style="list-style-type: none"> • Payables • Bank overdraft • Short term loans i.e. loans < than 12 months

Distinctive Features in the Format of the Balance Sheet of a Company and the Notes to the Financial Statements:

1. COMPANIES			
BALANCE SHEET – TRADING BUSINESS (Continuous inventory system)			
Name of company _____			
BALANCE SHEET AT _____			
	Notes	R	R
ASSETS			
(This section is the same as in a sole proprietor)			
Total assets			XXXXX
EQUITY AND LIABILITIES			
Equity and reserves			XXXXX
Ordinary share capital / equity	7		XXXX
Share premium	8		XXXX

Retained income	9		XXXX
Non-current liabilities			XXXXX
Mortgage bond (> 12 months)			
Current liabilities			XXXXX
Trade and other payables (creditors)	10		XXXX
Bank overdraft (if any)			XXXX
Short term loans (loans payable within 12 months)			XXXX
Total equity and liabilities			XXXXX

Note: This is not the full balance sheet. It only illustrates the distinctive features of a company balance sheet.
Pay special attention to the Equity and reserves section

COMPANIES
2. NOTES TO THE FINANCIAL STATEMENTS TRADING BUSINESS
(Continuous inventory system)

5. Trade and other receivables (debtors)	
Trade debtors	XXX
Provision for bad debts (new amount calculated)	XXX
Net trade debtors	XXX
Prepaid expenses	XXX
Accrued income	XXX
Insurance claim	XXX
Deposit for water and electricity	XXX
*South African Revenue Services: Income tax (if SARS has been overpaid)	XXX
	XXX

*Compare the SARS: Income tax amount in the trial balance to the tax for the year as reflected in the adjustments. If the amount in the trial balance is higher than the tax for the year, then the difference between the two amounts will appear as above.

7. Ordinary Share capital	
AUTHORISED	
xxxx ordinary shares of Rx each	XXXXX
ISSUED	
xxxx shares issued at Rx on the last day of the previous year	XXXX
xxxx shares at Rx each issued during the financial year	XXXX
xxxx shares at Rx on closing date	XXXX

- State number of shares and the par value.

8. Share premium	
Balance on the last date of the previous year	xxxx
xxx shares issued during the financial year at a premium of x cents	xxx
Balance on the last day of the current year	xxxx

- State the number of shares issued at a premium and the premium amount.

9. Accumulated profits / Retained Income	
Balance on the last day of previous year	xxx
Net profit (loss) after tax for the year / period	xxx
Ordinary dividends	(xxx)
Paid (interim)	(xx)
Recommended (final)	(xx)
Balance on the last day of the current year	xxxx

- The amount for the recommended or the final dividend will always be the same as the balance of the shareholders for dividend account

10. Trade and other payables (creditors)	
Trade creditors	xxx
Accrued expenses	xxx
Income received in advance	xxx
Creditors for salaries (net salaries)	xxx
Pension fund (deduction + contribution)	xxx
Medical fund (deduction + contribution)	xxx
Shareholders for dividends (amount of final dividend)	xxx
South African Revenue Services	xxx
- *Income tax (if an amount is still owed to SARS)	xxx
- PAYE	xxx
- Vat Control	xxx
	xxx

*Compare the SARS: Income tax amount in the trial balance to the tax for the year as reflected in the adjustments. If the amount in the trial balance is less than the tax for the year, then the difference between the two amounts will appear as above.

Note:

- These are not all the notes to the financial statements, but only those that are different in a company.
- The information in brackets is used to show the amounts that make up a particular item.

X-AMPLE QUESTIONS

Question 1: 79 marks 48 minutes (Adapted from New Era Study Guide)

COMPANY FINANCIAL STATEMENTS

1.1 BOTSO-BOTSO STORES LTD

The financial year-end is 30 June. Their inexperienced accountant prepared the final accounts and the Post-closing Trial Balance of the business on 30 June 2009 without taking certain adjustments into account.

REQUIRED

- 1.1.1 Calculate the correct **net income after tax** after taking all the adjustments into account. (21)
- 1.1.2 Complete the following notes to the Balance Sheet on 30 June 2009:
- Retained income (Accumulated profits) (7)
 - Trade and other receivables (15)
 - Trade and other payables (14)
- 1.1.3 Complete the Balance Sheet on 30 June 2009. (22)
(Show calculations in brackets where the notes are not required.)

FIGURES OBTAINED FROM THE POST-CLOSING TRIAL BALANCE ON 30 JUNE 2009	Debit R	Credit R
Ordinary share capital R2 per share		500 000
Retained income (1 July 2008)		85 000
Ordinary share premium		30 000
Fixed assets at book value	780 540	
Loan MAP Bank		140 200
Fixed deposit :Heeda Investments	30 000	
Trading stock	104 000	
Debtors' control	28 450	
Provision for bad debts		1 250
Bank		23 000
SARS: PAYE		3 200
SARS: Income tax	46 000	
Cash float	1 000	
Creditors' control		67 340
Net income before tax and additional adjustments		140 000
	989 990	989 990

ADDITIONAL INFORMATION

The accountant calculated the **net income before tax** to be R140 000. The following adjustments and other information were not taken into account:

1. The amount due by debtor G.Galu, R700, must be written off as irrecoverable and the provision for bad debts must be adjusted to R1 105.
2. A credit note from creditor Ngele Suppliers for merchandise returned on 28 June 2009 had not been entered, R820.

3. A physical stocktaking on 30 June 2009 showed that the following were on hand:

Trading stock	R98 000
Consumable stores	<u>R 540</u>
	<u>R98 540</u>

4. 50% of the fixed deposit at Heeda Investments will mature on 31 March 2010
5. The loan from MAP Bank has been debited with R44 400 that is 12 payments of R3 700 per month including the interest. The accountant has calculated that the following:

Beginning of the year (1 July 2008):	R184 600
End of the year (30 June 2009):	R162 124

An adjustment for interest must be made.

Over the next financial year this loan will reduce by R26 000.

6. Advertisements include an amount of R6 240 for a billboard advertisement at the Garwa High School for a period of two years commencing on 1 September 2008.
7. The salary of one employee Kala Hoendier was not taken into account in June 2009. His salary and all the amounts owing for salary deductions will be paid on 2 July 2009.

GROSS SALARY	DEDUCTIONS			NET SALARY
	SARS: PAYE	Pension Fund	UIF	
R10 000	R3 000	R900	R100	R6 000

The business contributes on a rand-for-rand basis to the Pension Fund and UIF. These contributions are not included in the totals above.

8. Income tax for the financial year has been calculated to be R42 500.
9. The directors declared a final dividend of 7½ cents per share

ANSWER BOOKLET

Question 1:

1.1.1 CALCULATION OF CORRECT NET INCOME	
Net income before adjustments	140 000
Bad debts	
Provision for bad debts	
Trading stock deficit	
Consumable stores on hand	
Interest on loan	
Advertising	
Salary	
Pension & UIF contributions	
Income tax	

(21)

1.1.2 BOTSO-BOTSO STORES LTD NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2009	
RETAINED INCOME	
Balance at beginning of year	
Net profit after tax the year	
<i>Ordinary share dividends</i>	
Balance at end of year	

(7)

TRADE AND OTHER RECEIVABLES/	
Trade debtors	
Provision for bad debts	
SARS: Income tax	
Prepaid expenses	

(15)

TRADE AND OTHER PAYABLES/	
Trade creditors	
Creditors for salaries	
SARS: PAYE	
Pension fund	
UIF	
Shareholders for dividends	

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1.1.3 BOTSE-BOTSE STORES LTD BALANCE SHEET AT 30 JUNE 2009		
ASSETS		
NON-CURRENT ASSETS		
FINANCIAL ASSETS		
Fixed deposit Heeda Bank		
CURRENT ASSETS		
<i>Inventories</i>		
Trade and other receivables		
Cash and cash equivalents		
TOTAL ASSETS		
EQUITY AND LIABILITIES		
SHAREHOLDERS EQUITY		
Ordinary shareholders equity		
Ordinary share premium		
Retained income		
NON-CURRENT LIABILITIES		
Loan MAP Bank		
CURRENT LIABILITIES		
Trade and other creditors		
Current portion of loan		
Bank overdraft		

(22)

SOLUTIONS TO X-AMPLE QUESTIONS

Question 1:

1.1.1 CALCULATION OF CORRECT NET INCOME			
Net income before adjustments		140 000	
<i>Do not mark details One mark for operation (+ or –) & one mark for figure in each case. If figure cannot be identified then no marks. Use of brackets for negatives is acceptable. If no bracket or no sign, assume it is positive.</i>	+ / -	Pluses R 34 325 8 marks Minuses R 81 304 12 marks	Amount /
Bad debts	✓	- 700	✓
Provision for bad debts	✓	+145	✓
Trading stock deficit	✓	- 5 180	✓
Consumable stores on hand	✓	+ 540	✓
Interest on loan	☑	- 21 924	✓✓
Advertising	✓	+ 3 640	✓
*Salary * May be split or combined R11 000: 4 marks in total	✓	- 10 000	✓
*Pension & UIF contributions	✓	- 1 000	✓
Income tax	✓	- 42 500	✓
		63 021	✓☑ Inspection

(21)

1.1.2 BOTSO-BOTSO STORES LTD NOTES TO THE FINANCIAL STATEMENTS – 30 JUNE 2009		
RETAINED INCOME		
Balance at beginning of year	85 000	✓
Net profit after tax the year	63 021	5.1.1 ✓
Ordinary share dividends ✓	18 750	✓
Balance at end of year <i>Inspection</i>	129 271	✓ ✓

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TRADE AND OTHER RECEIVABLES/	
Trade debtors (28 450 ✓ - 700✓)	27 750 ✓
Provision for bad debts (1250 – 145)	(1 105) ✓✓
	26 645 ✓ <i>Inspection</i>
SARS: Income tax (46 000✓ – 42 500✓)	3 500 ✓
Prepaid expenses	3 640 ✓✓
\$\$\$ <i>May be directly in BS or as Cash & cash equivalents</i>	33 785 ✓ <i>Inspection</i>

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TRADE AND OTHER PAYABLES/		
Trade creditors (67 340✓ - 820✓)	66 520	✓
Creditors for salaries	6 000	✓✓
SARS: PAYE/ (3 200✓ + 3 000✓)	6 200	✓
Pension fund	1 800	<input checked="" type="checkbox"/> ✓ If/ R900
UIF	200	<input checked="" type="checkbox"/> ✓ If R100
Shareholders for dividends / \$\$\$	18 750	✓
\$\$\$ <i>May be directly in BS</i>	99 470	<input checked="" type="checkbox"/> <i>Inspection</i>
** Current portion of loan – alternative		

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1.1.3 BOTSE-BOTSE STORES LTD BALANCE SHEET AT 30 JUNE 2009		
ASSETS		
NON-CURRENT ASSETS	780 540	✓
FINANCIAL ASSETS		
Fixed deposit Heeda Bank (30 000-15 000)	15 000	✓
CURRENT ASSETS	148 325	<input checked="" type="checkbox"/> <i>Inspection</i>
<i>Inventories</i>	98 540	✓✓
Trade and other receivables/	33 785	<input checked="" type="checkbox"/> <i>See Note</i>
Cash and cash equivalents/ (15 000+1000)	16 000	✓
TOTAL ASSETS	943 865	<input checked="" type="checkbox"/> <i>Inspection</i>

EQUITY AND LIABILITIES		
SHAREHOLDERS EQUITY		<input checked="" type="checkbox"/> 659 271 <i>Inspection</i>
Ordinary shareholders equity		500 000 ✓
Ordinary share premium		30 000 ✓
Retained income		129 271 <input checked="" type="checkbox"/> <i>See Note</i>
NON-CURRENT LIABILITIES		136 124 <i>Any figure</i>
Loan MAP Bank (162 124 – 26 000)		136 124 <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>
CURRENT LIABILITIES		<input checked="" type="checkbox"/> 148 470 <i>Inspection</i>
Trade and other creditors/		99 470 <input checked="" type="checkbox"/> <i>See Note</i>
Current portion of loan **		26 000 ✓✓
Bank overdraft/ (23 000 ✓ ✓)		23 000 ✓
** <i>Current portion of loan may be in the Note</i>		<input checked="" type="checkbox"/> 943 865 <i>Inspection</i>

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TOTAL: 79