

## LIVE: BALANCE SHEET



### Lesson Description

In this lesson we:

- Work through selected examination questions from the Gauteng Prelim 2014 paper.



### Improve your Skills

#### Question 1

*(Adapted from Prelim 2014, Gauteng, Question 3)*

#### **COMPANIES: FINANCIAL STATEMENTS** (60 marks; 33 minutes)

1.1 Choose the appropriate words given below to complete the sentences:

working capital, financial asset, qualified, operating expense, cash and cash equivalents, operating profit, borrowed capital, financial cost, unqualified,

- 1.1.1 The difference between current assets and current liabilities is referred to as ...
- 1.1.2 The audit report states: "With the exception of a few aspects, shareholders can rely on the figures in the financial statements." This will be regarded as a/an ... report.
- 1.1.3 Interest on the bank overdraft is classified as a/an ....
- 1.1.4 A fixed deposit which will mature in the next financial year, will be regarded as part of ... in the Balance sheet. (4)

#### 1.2 **JOYCO LIMITED**

The financial year of Joyco Limited ends on 30 June.

The accountant of Joyco Limited took the year-end adjustments into account and calculated the net profit before tax as R830 000. However, it was discovered that not all the adjustments were made before calculating the net profit before tax.

#### **REQUIRED:**

- 1.2.1 Calculate the correct net profit after tax for the year ended 30 June 2014. (19)
- 1.2.2 Complete the Liabilities section of the Balance Sheet (Statement of Financial Position) on 30 June 2014. Where notes are not required, calculations must be shown in brackets for part marks to be given. (13)
- 1.2.3 Prepare the following notes to the Balance Sheet (Statement of Financial Position):



- (a) Ordinary Share Capital (11)
- (b) Retained income (13)

**INFORMATION:**

1. The following extract was taken from the list of balances which appeared in the ledger of Joyco Limited on 30 June 2014, before any additional adjustments and information were taken into account:

|  |          |
|--|----------|
| Ordinary Share capital                     | ?        |
| Retained Income (1 July 2013)              | R310 000 |
| Equipment                                  | 350 000  |
| Accumulated depreciation on equipment      | 145 000  |
| Trading Stock                              | 132 000  |
| Debtors Control                            | 36 000   |
| Provision for bad debts                    | 1650     |
| Bank (Dr)                                  | 550 000  |
| Accrued Income                             |          |
| SARS – Income tax (Dr.)                    | 242 800  |
| Creditors Control                          |          |
| Income Received in Advance                 |          |
| Accrued Expenses                           |          |
| Loan: Zorro Bank @ 15 % p.a. (1 June 2014) | 280 000  |

2. The following adjustments and additional information were not taken into account:
- (a) According to the profit and loss account the insurance amounted to R27 000. This amount included a yearly premium of R7 200 which was paid on 1 November 2013.
  - (b) Trading Stock, R28 000 was damaged in a fire which broke out in the storeroom. The insurance company accepted the claim and will cover 80% of the claim.  
This amount will be received during July 2014. Write off the balance.



- (c) The provision for bad debts must be adjusted to 4% of the outstanding debtors.
- (d) In the profit-and-loss account, the amount for Rent income amounted to R91 300. The accountant did not take into account that the tenant paid the rent for July 2014 in advance. The rent had increased by R700 per month on 1 February 2014.
- (e) Interest on the loan for the last month is still outstanding. Interest is capitalized. The business intends to make four quarterly payments of R10 000 each towards the capital amount of the loan in the next financial year.
- (f) Profit on sale of an asset sold during the year, R14 500, was recorded as a loss in the profit and loss account.
- (g) Income Tax for the year amounted to R247 800.
- (h) The bank reconciliation statement on 30 June 2014 showed an outstanding cheque of R1 500, dated 15 August 2014. This cheque was issued to a creditor.
- (i) Share capital:
  - On 1 July 2013 the ordinary share capital amounted to R2 400 000.
  - 60 % of the authorised share capital of 500 000 shares were issued.
  - On 31 July 2013 the directors issued an additional 100 000 shares at R8,20.
  - On 10 January 2014 the directors decided to buy back 70 000 shares from the estate of a deceased shareholder at R8,60 per share. This transaction was completed successfully, but no entry has been made as yet.
- (j) Dividends: On 1 December 2013 an interim dividend of 50 cents per share was declared and paid. A final dividend of 70 cents per share was declared on 30 June 2014.

**[60]**



**Answer Book**

**Question 1**

**COMPANIES: FINANCIAL STATEMENTS** (60 marks; 33 minutes)

|     |   |  |
|-----|---|--|
| 1.1 | Choose the appropriate words given below to complete the sentences: |  |
|     | 1.1.1   |  |
|     | 1.1.2   |  |
|     | 1.1.3   |  |
|     | 1.1.4   |  |

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|   |
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**JOYCO LIMITED**

|       |  |                |
|-------|--|----------------|
| 1.2.1 | <b>Correct net profit after tax for the year ended 30 June 2014.</b> |                |
|       | <b>Incorrect Net Profit before Tax</b>                               | <b>830 000</b> |
|       |  |                |
|       |  |                |
|       |  |                |
|       |  |                |
|       |  |                |
|       |  |                |
|       | <b>Correct Net Profit before Tax</b>                                 |                |
|       | <b>Income Tax</b>  |                |
|       | <b>Net profit after Tax</b>  |                |

|    |
|----|
|    |
| 19 |





|              |   |  |                |
|--------------|---|--|----------------|
| <b>1.2.2</b> | <b>Liabilities section of the Balance Sheet (Statement of Financial Position) on 30 June 2014. Where notes are not required, calculations must be shown in brackets for part marks to be given.</b> |  |                |
|              | <b>Non-current Liabilities</b>  |  |                |
|              |   |  |                |
|              |   |  |                |
|              | <b>Current liabilities</b>  |  |                |
|              | <b>Trade and other payable amounts</b><br>(includes SARS: Income Tax)   |  | <b>306 200</b> |
|              |   |  |                |
|              |   |  |                |
|              |   |  |                |
|              |   |  |                |
|              |   |  |                |
|              |   |  |                |

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|           |
| <b>13</b> |

|              |                                    |  |  |
|--------------|------------------------------------|--|--|
| <b>1.2.3</b> | <b>NOTES TO THE BALANCE SHEET:</b> |  |  |
| <b>(a)</b>   | <b>Ordinary Share Capital</b>      |  |  |
|              | <b>Authorised:</b>                 |  |  |
|              | <b>500 000 ordinary shares</b>     |  |  |
|              | <b>Issued:</b>                     |  |  |
|              |                                    |  |  |
|              |                                    |  |  |
|              |                                    |  |  |
|              |                                    |  |  |

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|-----------|
|           |
| <b>11</b> |



|              |  |  |  |
|--------------|--|--|--|
| <b>1.2.3</b> | <b>NOTES TO THE BALANCE SHEET:</b>     |  |  |
| <b>(b)</b>   | <b>Retained income</b>                 |  |  |
|              | <b>Balance at end of previous year</b> |  |  |
|              |  |  |  |
|              |  |  |  |
|              |  |  |  |
|              |  |  |  |
|              |  |  |  |
|              | <b>Balance at end of current year</b>  |  |  |

|           |
|-----------|
|           |
| <b>13</b> |

## Solutions to Balance Sheet (Live)

### Question 1

**COMPANIES: FINANCIAL STATEMENTS** (60 marks; 33 minutes)

1.1

- 1.1.1 working capital ✓
- 1.1.2 qualified ✓
- 1.1.3 financial cost ✓
- 1.1.4 cash and cash equivalents ✓

### JOYCO LIMITED

1.2.1

**Correct net profit after tax for the year ended 30 June 2014.**

|  |                |
|--|----------------|
| <b>Incorrect Net Profit before Tax</b>           | <b>830 000</b> |
| Insurance (7 200 / 12 x 4)✓                      | ✓☑ 2 400       |
| Loss due to fire (28 000 x 20%)                  | ✓☑ (5 600)     |
| Provision for Bad Debts adjusted (1 650 – 1 440) | ✓✓210          |
| Rent Income (91 300✓ – 4 200✓) / 13✓ + 700✓      | ☑(7 400)       |
| Interest on loan (28 000 x 15%✓ / 12✓)           | ✓(3 500)       |
| Profit on sale of asset (14 500 + 14 500)        | ✓✓29 000       |
| <b>Correct Net Profit before Tax</b>             | <b>845 210</b> |
| <b>Income Tax</b>                                | ☑(247 800)     |
| <b>Net profit after Tax</b>                      | ☑ 597 410      |

## 1.2.2

|   |  |   |
|---|--|---|
| <b>Non-current liabilities</b>  |  | 243 500                                       |
| Loan: Zorro Bank (280 000✓ + 3 500✓ - 40 000✓ <input checked="" type="checkbox"/> ) |  | <input checked="" type="checkbox"/> 243 500   |
|   |  |   |
| <b>Current liabilities</b>  |  | ✓ 396 700                                     |
| <b>Trade and other payable amounts</b><br>(includes SARS: Income Tax)               |  | <b>306 200</b>                                |
| Bank Overdraft<br>(550 000✓ + 1 500✓ - 602 000✓) or<br>(602 000 - 1 500 - 550 000)  |  | <input checked="" type="checkbox"/> 50 500    |
| Short term loan ✓   |  | ✓40 000                                       |
|   |  | <input checked="" type="checkbox"/> 3 729 710 |
|   |  |   |

## 1.2.3 a.)

|  |  |   |
|--|--|---|
| <b>NOTES TO THE BALANCE SHEET:</b>         |  |   |
| <b>Ordinary Share Capital</b>              |  |   |
| <b>Authorised:</b>                         |  |   |
| <b>500 000 ordinary shares</b>             |  |   |
| <b>Issued:</b>                             |  |   |
| 300 000✓ shares on 30 June 2013 @ R8✓ each |  | ✓ 2 400 000                                   |
| 100 000✓ shares issued @ R 8,20✓ each      |  | ✓ 820 000                                     |
| 70 000✓ shares repurchased R8,05✓ each     |  | <input checked="" type="checkbox"/> (563 500) |
| 330 000✓ shares on 30 June 2014            |  | <input checked="" type="checkbox"/> 2 656 500 |





b.)

| <b>NOTES TO THE BALANCE SHEET:</b>     |  |             |
|--|--|-------------|
| <b>Retained income</b>                 |  |             |
| <b>Balance at end of previous year</b> |  | ✓ 310 000   |
| Net profit after tax                   |  | ☑ 597 410   |
| Shares repurchased (70 000✓ x 55c✓)    |  | ☑ (38 500)  |
| Dividend for the year                  |  | ☑ (431 000) |
| Paid (400 000✓ x 50c✓)                 |  | ☑ 200 000   |
| Declared (330 000✓ x 70c✓)             |  | ☑ 231 000   |
| <b>Balance at end of current year</b>  |  | ☑ 437 910   |