

Task IM-4.28: Preparing Financial Statements via Trial Balance

SIEVERS (Pty) Ltd. is a book store. The company prepares a trial balance as at 31.12.20X4. See below:

Sievers GmbH's TRIAL BALANCE as at 31.12.20X4		
Account	Debit entries	Credit entries
Cash/Bank	113,249.00	
Issued capital		75,000.00
Interest bearing liabilities		40,000.00
Purchase	47,500.00	
VAT		7,420.00
Returns outwards		600.00
Accounts receivables	12,720.00	
Labour	30,000.00	
Rent	16,991.00	
P, P, E	16,000.00	
Accounts payables		13,440.00
Sales		100,000.00
Total:	236,460.00	236,460.00

Exhibit 1: Trial balance

The business activities below lead to the trial balance, you must make adjustments:

- (1) Establishment of the company by share issue to the extent of 75,000.00 EUR
- (2) On 2.01.20X4, taking a bank loan 40,000.00 EUR, interest and pay-off of the bank loan is to be considered as adjustments. The bank loan is an annuity with an annual payment of 4,000.00 EUR/a. The rate of interest is 2.3 %/a. You must disclose the bank loan along IAS 1. No discounting of liabilities is required.
- (3) Purchase of books at a gross value of 57,000.00 EUR on cash.
- (4) Return of 20 Accounting books to the publisher (printer) in exchange for a voucher as there is a new edition on the market. $36 \times 20 = 720.00$ EUR, the net amount equals to $720/1.2 = 600.00$ EUR.
- (5) Labour: 30,000.00 EUR/a.
- (6) Rent: 1,300.00 EUR/m. The rent for January 20X5 is paid in 20X4 already. From 20X5, monthly rent increases by 7 %. Rent is not subject to VAT. The recording of prepaid expenses at the end of the Accounting period is part of adjustments (you).
- (7) Acquisition of interior at cost of acquisition of 16,000.00 EUR. Payment is amounting to 30 % - the remaining amount is paid in the next Accounting period.
- (8) Sale of books that are valued at 45,000.00 EUR at a net selling price of 100,000.00 EUR. The customers pay cash to an extent of 90 %.

Required: You are supposed to prepare an income statement and a balance sheet. Derive the income statement via a Trading account and determine the gross profit. Make adjustments such as depreciation, interest, pay-off of bank loan, debts separation, recording prepaid expenses, returns etc., and prepare the Profit and Loss account. Consider depreciation on the interior to be 2,000.00 EUR/a. Disclose the bank loan along IAS 1.

Solution:

Recording adjustments:

(A) Depreciation 2,000.00 EUR

(B) Prepaid expenses for rent: $1.07 \times 1,300 = \mathbf{1,391.00 \text{ EUR}}$

(C) Payment of interest and pay-off: Interest is amounting to $2.3\% \times 40,000 = \mathbf{920.00 \text{ EUR}}$. Pay-off equals to $4,000 - 920 = \mathbf{3,080.00 \text{ EUR}}$.

(D) Separate short-term liabilities from the bank loan. Next year's pay-off equals to: $4,000 - (40,000 - 2,080) \times 2.3\% = \mathbf{3,127.84 \text{ EUR}}$.

The closing stock of books as recorded in the inventory account and Trading account equals to $47,500 - 600 - 45,000 = \mathbf{1,900.00 \text{ EUR}}$.

Observe the accounts and the financial statements below:

D		Cash/Bank	C	D		Issued capital	C
(1)	75,000.00	(3)	57,000.00	c/d	75,000.00	(1)	75,000.00
(2)	40,000.00	(5)	30,000.00			b/d	75,000.00
(8)	108,000.00	(6)	16,991.00				
		(7)	5,760.00				
		c/d	113,249.00				
	223,000.00		223,000.00				
b/d	113,249.00	(C)	4,000.00				
		c/d	109,249.00				
	113,249.00		113,249.00				
b/d	109,249.00						

D		Interest bearing liabilities	C	D		Purchase	C
(C)	3,080.00	(2)	40,000.00	(3)	47,500.00	T/A	47,500.00
(D)	3,127.84						
c/d	33,792.16						
	40,000.00		40,000.00				
		b/d	33,792.16				

D		VAT	C	
(3)	9,500.00	(4)	120.00	
(7)	3,200.00	(8)	20,000.00	
c/d	7,420.00			
	<u>20,120.00</u>		<u>20,120.00</u>	
		b/d	7,420.00	

D		Returns outwards	C	
T/A	600.00	(4)	600.00	

D		A/R	C	
(4)	720.00			
(8)	12,000.00	c/d	12,720.00	
	<u>12,720.00</u>		<u>12,720.00</u>	
b/d	12,720.00			

D		Labour	C	
(5)	30,000.00	P&L	30,000.00	

D		Rent	C	
(6)	16,991.00	(B)	1,391.00	
		c/d	15,600.00	
	<u>16,991.00</u>		<u>16,991.00</u>	
b/d	15,600.00	P&L	15,600.00	

D		Prepaid expenses	C	
(B)	1,391.00	c/d	1,391.00	
b/d	1,391.00			

D		P, P, E	C
(7)	16,000.00	c/d	16,000.00
b/d	16,000.00		

D		A/P	C
		(7)	13,440.00
c/d	16,567.84	(D)	3,127.84
	16,567.84		16,567.84
		b/d	16,567.84

D		Sales	C
T/A	100,000.00	(8)	100,000.00

D		Depreciation	C
(A)	2,000.00	P&L	2,000.00

D		Acc depreciation	C
c/d	2,000.00	(A)	2,000.00
		b/d	2,000.00

D		Interest	C
(C)	920.00	P&L	920.00

D		Trading account T/A	C
PRH	47,500.00	Rev	100,000.00
		ClSt	1,900.00
GP	55,000.00	R.O.	600.00
	102,500.00		102,500.00
P&L	55,000.00	b/d	55,000.00

D		Inventory	C
T/A	1,900.00	c/d	1,900.00
b/d	1,900.00		

D		Profit and Loss P&L	C
INT	920.00	T/A	55,000.00
DPR	2,000.00		
LAB	30,000.00		
RNT	15,600.00		
EBT	6,480.00		
	55,000.00		55,000.00
ITL	1,944.00	b/d	6,480.00
R/E	4,536.00		
	6,480.00		6,480.00

D		Income tax liabilities	C
c/d	1,944.00	P&L	1,944.00
		b/d	1,944.00

D		Retained earnings R/E	C
c/d	4,536.00	P&L	4,536.00
		b/d	4,536.00

D		name	C
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Exhibit 2: Accounts

**Sievers (Pty) Ltd.'s
STATEMENT of PROFIT & LOSS
and OTHER COMPREHENSIVE INCOME
for the year ended 31.12.20X4**

	[EUR]
Revenue	100,000.00
Other income	
	100,000.00
Materials	(45,000.00)
Labour	(30,000.00)
Depreciation	(2,000.00)
Other expenses	(15,600.00)
Earnings before int. & taxes (EBIT)	7,400.00
Interest	(920.00)
Earnings before taxes (EBT)	6,480.00
Income tax expenses	(1,944.00)
Deferred taxes	
Earnings after taxes (EAT)	4,536.00

Exhibit 3: Income statement

**Sievers (Pty) Ltd.'s
STATEMENT of FINANCIAL POSITION
as at 31.12.20X4**

A			C, L
<i>Non-current assets</i>	[EUR]	<i>Equity</i>	[EUR]
P, P, E	14,000.00	Share capital	75,000.00
Intangibles		Reserves	
Financial assets		Retained earnings	4,536.00
<i>Current assets</i>		<i>Liabilities</i>	
Inventory	1,900.00	Interest bear liab	33,792.16
Accounts receivables	12,720.00	Accounts payables	23,987.84
Prepaid expenses	1,391.00	Provisions	
Cash/Bank	109,249.00	Tax liabilities	1,944.00
Total assets	139,260.00	Total equity and liab.	139,260.00

Exhibit 4: Balance sheet