

Task IM-4.29: Preparing Financial Statements from a Trial Balance

RECKLAND Ltd. is an Australian drone dealer. The company was established on 1.01.20X2. As at the 31.12.20X6, RECKLAND Ltd. provides the trial balance (list of the balances brought down for all accounts before adjustments) as below before adjustments:

**RECKFIELD Ltd.'s
TRIAL BALANCE
as at 31.12.20X6**

Account	Debit entries	Credit entries
Property, Plant, Equipement	235,000.00	
Accumulated depreciation		75,000.00
Financial instruments	20,000.00	
Inventories	42,000.00	
Prepaid expenses	12,000.00	
Cash/Bank	60,000.00	
Issued capital		50,000.00
Reserves		85,000.00
Retained earnings		70,000.00
Interest bearing liabilities		80,000.00
Accounts payables (bank loan)		10,000.00
Accounts payables (VAT)		24,500.00
Tax liabilities		0.00
Revenue		125,500.00
Purchase	91,000.00	
Labour	36,000.00	
Rent	24,000.00	
Total:	520,000.00	520,000.00

Exhibit 1: Trial balance

As part of the adjustment you have to record depreciation to the extent of 30,000 AUD. You further have to consider an interest payment of 6.5 %/a and a pay-off amount for the bank loan of 10,000.00 AUD which is recorded in the accounts payables. In the next Accounting period, RECKFIELD Ltd. has to pay-off 8,900 AUD for the bank loan.

The stock count detects a closing balancing figure for inventories of 30,000.00 AUD.

Required: Prepare a Profit and Loss account and a balance sheet.

Solution:

It is recommended to record the adjustments in Bookkeeping entries. However, here, the adjustments are recorded by an MS-Excel solution as a delta-T/B: See below the changes made for depreciation and bank loan payments.

**Reckfield Ltd.'s
Δ1 TRIAL BALANCE
as at 31.12.20X6**

Account	Debit entries	Credit entries
Property, Plant, Equipement		
Accumulated depreciation		30,000.00
Financial instruments		
Inventories		
Prepaid expenses		
Cash/Bank		15,850.00
Issued capital		
Reserves		
Retained earnings		
Interest bearing liabilities	8,900.00	
Accounts payables (bank loan)	10,000.00	8,900.00
Accounts payables (VAT)		
Tax liabilities		
Revenue		
Purchase		
Labour		
Rent		
Depreciation	30,000.00	
Interest	5,850.00	
Total:	54,750.00	54,750.00

Exhibit 2: Delta T/B (without P&L)

The T/B before profit calculation results from the calculations in the Δ Trial Balance.

**Reckfield Ltd.'s
before P&L-TRIAL BALANCE
as at 31.12.20X6**

Account	Debit entries	Credit entries
Property, Plant, Equipement	235,000.00	0.00
Accumulated depreciation	0.00	105,000.00
Financial instruments	20,000.00	0.00
Inventories	42,000.00	0.00
Prepaid expenses	12,000.00	0.00
Cash/Bank	44,150.00	0.00
Issued capital	0.00	50,000.00
Reserves	0.00	85,000.00
Retained earnings	0.00	70,000.00
Interest bearing liabilities	0.00	71,100.00
Accounts payables (bank loan)	0.00	8,900.00
Accounts payables (VAT)	0.00	24,500.00
Tax liabilities	0.00	0.00
Revenue	0.00	125,500.00
Purchase	91,000.00	0.00
Labour	36,000.00	0.00
Rent	24,000.00	0.00
Depreciation	30,000.00	0.00
Interest	5,850.00	0.00
Total:	540,000.00	540,000.00

Exhibit 3: Automatically prepared adjusted T/B before profit calculation

The Profit and Loss account is displayed below:

Profit and Loss P&L			
D			C
INV	42,000.00	REV	125,500.00
PRH	91,000.00	INV	30,000.00
LAB	36,000.00		
RNT	24,000.00		
INT	5,850.00		
DPR	30,000.00	NL	73,350.00
	<u>228,850.00</u>		<u>228,850.00</u>
b/d	73,350.00		

Exhibit 4: Profit and Loss account

Find in exhibit 5 the adjusted T/B after profit calculation

**Reckfield Ltd.'s
ADJUSTED TRIAL BALANCE
as at 31.12.20X6**

Account	Debit entries	Credit entries
Property, Plant, Equipement	235,000.00	0.00
Accumulated depreciation	0.00	105,000.00
Financial instruments	20,000.00	0.00
Inventories	30,000.00	0.00
Prepaid expenses	12,000.00	0.00
Cash/Bank	44,150.00	0.00
Issued capital	0.00	50,000.00
Reserves	0.00	85,000.00
Retained earnings	3,350.00	
Interest bearing liabilities	0.00	71,100.00
Accounts payables (bank loan)	0.00	8,900.00
Accounts payables (VAT)	0.00	24,500.00
Tax liabilities	0.00	0.00
Revenue	0.00	0.00
Purchase	0.00	0.00
Labour	0.00	0.00
Rent	0.00	0.00
Depreciation	0.00	0.00
Interest	0.00	0.00
Total:	344,500.00	344,500.00

Exhibit 5: Adjusted trial balance

Exhibit 6 shows the balance sheet:

Reckfield Ltd.'s
STATEMENT of FINANCIAL POSITION
as at 31.12.20X6

A			C, L
<i>Non-current assets</i>	[AUD]	<i>Equity</i>	[AUD]
P, P, E	130,000.00	Share capital	50,000.00
Intangibles		Reserves	85,000.00
Financial assets	20,000.00	Retained earnings	(3,350.00)
<i>Current assets</i>		<i>Liabilities</i>	
Inventory	30,000.00	Interest bear liab	71,100.00
Accounts receivables		Accounts payables	33,400.00
Prepaid expenses	12,000.00	Provisions	
Cash/Bank	44,150.00	Tax liabilities	
Total assets	236,150.00	Total equity and liab.	236,150.00

Exhibit 6: Balance sheet