

Task IM-4.39: Preparing Financial Statements

TEUTON-CHEF Ltd. is established by a share issue of 100,000 ordinary shares at 1.00 ZAR/s on 2.01.20X8. The company is registered for VAT reduction. It is an internet trader for microwave ovens.

The following business activities were recorded in the Accounting period 20X8:

- (1) The company takes a bank loan 1,Y00,000.00 ZAR which is an annuity. The rate of interest is 4.Z0 %/a and the annuity is amounting to 6.00 %/a. The pay-off and interest is paid at the end of the Accounting period. Make sure you disclose the bank loan in compliance with IAS 1.60.
- (2) The Company buys 1,Y00 microwave ovens at a net purchase price of 5,000.00 ZAR/u. It pays 80 % of the due amount to its supplier, the remainder is to be paid in 20X9.
- (3) On 3.03.20X8, TEUTON-CHEF Ltd. buys for its shipping department a packing machine at cost of acquisition of 9Y0,000.00 ZAR. The seller is paid in full by bank transfer. Consider depreciation along declining method at a monthly percentage of 2.00 %/m.
- (4) Operational costs at TEUTON-CHEF Ltd. are amounting to 50X,000.00 ZAR/a. The operational costs are not VATable. Operational costs must be paid for January 20X9 in advance. The prepayment is not included in the operational costs of 50X,000.00 ZAR/a yet. You must consider for the adjustments.
- (5) During the Accounting period 20X8, TEUTON-CHEF Ltd. sells 980 microwave ovens at a net selling price of 9,Z00.00 ZAR/u. All customers pay on cash.

Required: Prepare a trial balance after making initial Bookkeeping entries for taking the bank loan, purchases, acquisition of the packing machine, recording operational expenses for 1 year and selling the goods. Determine the gross profit. Thereafter, prepare the adjusted trial balance: Consider depreciation, interest and pay-off for the bank loan, the bank loan disclosure following IAS 1.60, make the payment of the January 20X9's operational expenses. Furthermore, consider the appropriation of profits: 50 % of the profit is to be declared as dividend to the shareholders and the remainder is carried forward to the next Accounting period 20X9. Prepare a full set of financial statements: statement of financial position, statement of profit or loss and other comprehensive income, statement of cash flows (direct method) and a statement of changes in equity.

Solution (X = 5; Y = 1; Z = 8):

Observe the accounts at the end of the Accounting period:

D Cash/Bank C/B C f (1) 100,000.00 (1) 5,280,000.00 o f (2) 1,100,000.00 (3) 1,092,000.00 i o (5) 11,524,800.00 (4) 505,000.00 o 12,724,800.00 c/d 5,847,800.00 b/d 5,847,800.00 INT 52,800.00 f P/O 13,200.00 f OEX 42,083.33 o c/d 5,739,716.67 5,847,800.00 5,847,800.00 b/d 5,739,716.67		D Share capital ISS C c/d 100,000.00 OV 100,000.00 b/d 100,000.00		D Purchase C (1) 5,500,000.00 c/d 5,500,000.00 b/d 5,500,000.00 T/A 5,500,000.00	
D Interest bearing liabilities IBL C c/d 1,100,000.00 (2) 1,100,000.00 C/B 13,200.00 b/d 1,100,000.00 A/P 13,833.60 c/d 1,072,966.40 1,100,000.00 1,100,000.00 b/d 1,072,966.40		D Value added tax VAT C (1) 1,100,000.00 (5) 1,920,800.00 (3) 182,000.00 c/d 638,800.00 1,920,800.00 1,920,800.00 b/d 638,800.00		D Accounts payables A/P C c/d 1,320,000.00 (1) 1,320,000.00 b/d 1,320,000.00 IBL 13,833.60 R/E 2,092,907.69 3,426,741.29 3,426,741.29 b/d 3,426,741.29	
D Property, plant, equipment PPE C (3) 910,000.00 c/d 910,000.00 b/d 910,000.00		D Operational expenses-20X8 OEX C (4) 505,000.00 c/d 505,000.00 b/d 505,000.00 PRE 42,083.33 C/B 42,083.33 c/d 505,000.00 547,083.33 547,083.33 b/d 505,000.00 P&L 505,000.00		D Revenue-20X8 REV C c/d 9,604,000.00 (5) 9,604,000.00 T/A 9,604,000.00 b/d 9,604,000.00	
D Depreciation-20X8 DPR C ACC 166,463.75 P&L 166,463.75		D Accumulated depreciation ACC C c/d 166,463.75 DPR 166,463.75 b/d 166,463.75		D Interest-20X8 INT C C/B 52,800.00 P&L 52,800.00	
D Prepaid expenses PRE C OEX 42,083.33 c/d 42,083.33 b/d 42,083.33		D Trading account-20X8 T/A C PUR 5,500,000.00 INV 2,600,000.00 GP 6,704,000.00 REV 9,604,000.00 12,204,000.00 12,204,000.00 P&L 6,704,000.00 b/d 6,704,000.00		D Inventories INV C T/A 2,600,000.00 c/d 2,600,000.00 b/d 2,600,000.00	
D Profit and Loss-20X8 P&L C DPR 166,463.75 T/A 6,704,000.00 OEX 505,000.00 INT 52,800.00 EBT 5,979,736.25 6,704,000.00 6,704,000.00 ITL 1,793,920.88 b/d 5,979,736.25 R/E 4,185,815.38		D Retained earnings R/E C S4D 2,092,907.69 P&L 4,185,815.38 c/d 2,092,907.69 4,185,815.38 4,185,815.38 b/d 2,092,907.69		D Income tax liabilities ITL C c/d 1,793,920.88 P&L 1,793,920.88 b/d 1,793,920.88	

Exhibit 1: Accounts (after adjustments)

See the financial statements in Exhibit 2 to Exhibit 5 below:

Teuton Ltd.
STATEMENT of FINANCIAL POSITION

A		as at 31.12.20X8		C, L	
Non-current assets		[ZAR]	Equity		[EUR]
P, P, E	743,536.25		Share capital	100,000.00	
Intangibles			Reserves		
Financial assets			Retained earnings	2,092,907.69	
Current assets			Liabilities (liab.)		
Inventory	2,600,000.00		Long-term liab. IBL	1,072,966.40	
Acc. receivables A/R			Short-term liab. A/P	4,065,541.29	
Prepaid expenses	42,083.33		Provisions		
Cash/Bank	5,739,716.67		Income tax liab.	1,793,920.88	
Total assets	9,125,336.25		Total equity and liab.	9,125,336.25	

Exhibit 2: Balance sheet

Teuton-Chef Ltd.
STATEMENT of PROFIT & LOSS
and OTHER COMPREHENSIVE INCOME
for the year ended 31.12.20X8

	[ZAR]
Revenue	9,604,000.00
Other income	
	9,604,000.00
Materials	(2,900,000.00)
Labour	
Depreciation	(166,463.75)
Other expenses	(505,000.00)
Earnings before int. & taxes (EBIT)	6,032,536.25
Interest	(52,800.00)
Earnings before taxes (EBT)	5,979,736.25
Income tax expenses	(1,793,920.88)
Deferred taxes	
Earnings after taxes (EAT)	4,185,815.38

Exhibit 3: Income statement

Teuton-Chef Ltd. STATEMENT of CASH FLOWS for the period ended 31.12.20X8		
<i>Cash flow from operating activities</i>	[ZAR]	[ZAR]
Proceeds	11,524,800.00	
Material purchase	(5,280,000.00)	
Operational expense payments	(547,083.33)	
		5,697,716.67
<i>Cash flow from investing activities</i>		
Investments	(1,092,000.00)	
		(1,092,000.00)
<i>Cash flow from financing activities</i>		
Share issue	100,000.00	
Loan received	1,100,000.00	
Pay-off plus interest	(66,000.00)	
		1,134,000.00
Total cash flow		5,739,716.67

Exhibit 4: Statement of cash flows (direct method)

Teuton-Chef Ltd. STATEMENT of CHANGES in EQUITY as at 31.12.20X8				
	Share capital	Reserves	Retained earnings	total
	[ZAR]	[ZAR]	[ZAR]	[ZAR]
as at 1.01.20X8	0.00	0.00	0.00	0.00
Share issue	100,000.00			100,000.00
Profit 20X8			4,185,815.38	4,185,815.38
Dividend 20X8		0.00	(2,092,907.69)	(2,092,907.69)
				0.00
as at 31.12.20X8	100,000.00	0.00	2,092,907.69	2,192,907.69

Exhibit 5: Statement of changes in equity