

Task 4.18: Trial Balance

On 2.01.20X3, SPRAKENSEHL Ltd. is established by a share issue of 2,500 ordinary shares at 10 EUR each (par value issue). The paid-in funds are subject to the memorandum of incorporation (legal contract for founding the business) and count as opening values.

The company SPRAKENSEHL Ltd. is a bakery. The company buys dough from a supplier and bakes rolls and breads in their in-shop-oven. The oven is bought on 3.01.20X3 at cost of acquisition of 8,500.00 EUR (net amount). The SPRAKENSEHL Ltd. pays 5,000.00 EUR – the remaining amount is to be paid later: Payment takes place in 20X4.

On 2.02.20X3, SPRAKENSEHL Ltd. takes a bank loan from its house bank to the extent of 20,000.00 EUR. The bank loan is an annuity which comes with a rate of interest of 2.4 %/a. The annuity in every year equals to 1,000.00 EUR. You have to disclose the pay-off for the next coming period as a short-term liability. SPRAKENSEHL buys in 20X3 dough at cost of purchase of 40,000.00 EUR and in 20X4 at 58,000.00 EUR. The company pays its purchases instantly by bank transfer. At the balance sheet day, all inventories are consumed.

For labour, SPRAKENSEHL Ltd. pays 5,000.00 EUR/m during both years Labour is paid one month in advance except of labour for January 20X3, as it is paid in January 20X3.

SPRAKENSEHL Ltd. earns a revenue of 130,000.00 EUR in 20X3 and of 180,000.00 EUR in 20X4.

In 20X3, there is no appropriation of profits. In 20X4, SPRAKENSEHL Ltd. declares a dividend at 25 % of the available amount for distribution and carries forward the remaining amount. The amount is added to the Shareholders' for Dividend account (not paid yet).

No depreciation is considered for this task.

Required: Prepare financial statements (balance sheet and income statement) as at 31.12.20X4 with comparative information for 20X3. Apply the Trading Account in order to determine the gross profit. Show the gross profit in your income statement. Consider the appropriation of profits for the second Accounting period.

Solution:

(OV) Recording of the paid-in contribution of owners

(1) Acquisition of the oven. The oven's gross amount equals to $8,500 \times 120\% = 10,200.00$ EUR.

DR P, P, E	8,500.00 EUR
DR VAT	1,700.00 EUR
CR Cash/Bank	5,000.00 EUR
CR A/P	5,200.00 EUR

(2) Taking bank loan: 20,000.00 EUR

0.024 rate of interest

SPRAKENSEHL Ltd.'s INTEREST and PAY-OFF PLAN

Year	Opening amount [EUR]	Interest [EUR]	Pay-off [EUR]	Annuity [EUR]	Rest [EUR]
20X3	20,000.00	440.00	560.00	1,000.00	19,440.00
20X4	19,440.00	466.56	533.44	1,000.00	18,906.56
20X5	18,906.56	453.76	546.24	1,000.00	18,360.32

Exhibit 1: Interest and pay-off plan

(3) Payment of annuity

(4) Disclose pay-off of 20X4 as short-term liability: 532.48 EUR.

(5) Purchase of dough. The gross amount equals to: $40,000 \times 120\% = 48,000.00$ EUR.

(6) Payment for labour: $13 \times 5,000 = 65,000.00$ EUR.

(7) Accrual of labour: 5,000.00 EUR.

(8) Revenue recognition: $130,000 \times 120\% = 156,000.00$ EUR.

In 20X4:

(A) Payment of income tax liabilities

(B) Payment of VAT liabilities

(C) Payment of debts to the oven supplier: 5,200.00 EUR

(D) Payment of bank loans annuity

(E) Disclose pay-off of 20X5 as short-term liability: 546.24 EUR.

(F) Accrual of labour: 5,000.00 EUR.

(G) Payment of labour: 60,000.00 EUR.

(H) Accrual of labour: 5,000.00 EUR.

(I) Purchase of dough. The gross amount equals to: $58,000 \times 120\% = 69,600.00$ EUR.

(J) Recording revenue: The gross amount equals to: $180,000 \times 120\% = 216,000.00$ EUR.

Observe the accounts:

Cash/Bank				Issued capital			
D			C	D			C
OV	25,000.00	(1)	5,000.00	c/d	25,000.00	OV	25,000.00
(2)	20,000.00	(3)	1,000.00			b/d	25,000.00
(8)	156,000.00	(5)	48,000.00				
		(6)	65,000.00				
		c/d	82,000.00				
	<u>201,000.00</u>		<u>201,000.00</u>				
b/d	82,000.00	(A)	8,868.00				
(J)	216,000.00	(B)	16,300.00				
		(C)	5,200.00				
		(D)	1,000.00				
		(G)	60,000.00				
		(I)	69,600.00				
		c/d	137,032.00				
	<u>298,000.00</u>		<u>298,000.00</u>				
b/d	137,032.00						

P, P, E				VAT			
D			C	D			C
(1)	8,500.00	c/d	8,500.00	(1)	1,700.00	(8)	26,000.00
b/d	8,500.00			(5)	8,000.00		
				c/d	16,300.00		
					<u>26,000.00</u>		<u>26,000.00</u>
				(B)	16,300.00	b/d	16,300.00
				(I)	11,600.00	(J)	36,000.00
				c/d	24,400.00		
					<u>52,300.00</u>		<u>52,300.00</u>
						b/d	24,400.00

Accounts payables A/P				Interest bearing liability			
D			C	D			C
		(1)	5,200.00	(3)	560.00	(2)	20,000.00
c/d	5,733.44	(4)	533.44	(4)	533.44		
	<u>5,733.44</u>		<u>5,733.44</u>	c/d	18,906.56		
(C)	5,200.00	b/d	5,733.44		<u>20,000.00</u>		<u>20,000.00</u>
(D)	533.44	(E)	546.24	(E)	546.24	b/d	18,906.56
c/d	546.24			c/d	18,360.32		
	<u>6,279.68</u>		<u>6,279.68</u>		<u>18,906.56</u>		<u>18,906.56</u>
		b/d	546.24			b/d	18,360.32

Exhibit 2: Accounts

D		Interest - 20X3	C
(3)	440.00	c/d	440.00
b/d	440.00	P&L	440.00

D		Labour - 20X4	C
(6)	65,000.00	(7)	5,000.00
		c/d	60,000.00
	65,000.00		65,000.00
b/d	60,000.00	P&L	60,000.00

D		Purchase	C
(5)	40,000.00	c/d	40,000.00
b/d	40,000.00	T/A	40,000.00

D		Prepaid expenses	C
(7)	5,000.00	c/d	5,000.00
b/d	5,000.00	(F)	5,000.00
(H)	5,000.00	c/d	5,000.00
	10,000.00		10,000.00
b/d	5,000.00		

D		Revenue - 20X3	C
c/d	130,000.00	(8)	130,000.00
T/A	130,000.00	b/d	130,000.00

D		Trading account T/A - 20X3	C
Prh	40,000.00	Rev	130,000.00
GP	90,000.00		
	130,000.00		130,000.00
P&L	90,000.00	c/d	90,000.00

D		Profit and Loss P&L - 20X4	C
Lab	60,000.00	T/A	90,000.00
Int	440.00		
EBT	29,560.00		
	90,000.00		90,000.00
ITL	8,868.00	b/d	29,560.00
R/E	20,692.00		
	29,560.00		29,560.00

D		Income tax liabilities ITL	C
c/d	8,868.00	P&L	8,868.00
(A)	8,868.00	b/d	8,868.00
c/d	18,460.03	ITL	18,460.03
	27,328.03		27,328.03
		b/d	18,460.03

Exhibit 2: Accounts (continued)

Retained earnings R/E				Labour - 20X4			
D			C	D			C
c/d	20,692.00	P&L	20,692.00	(F)	5,000.00	(H)	5,000.00
		b/d	20,692.00	(G)	60,000.00	c/d	60,000.00
c/d	63,765.41	R/E	43,073.41		65,000.00		65,000.00
	63,765.41		63,765.41	b/d	60,000.00	P&L	60,000.00
S4D	15,941.35	b/d	63,765.41				
c/d	47,824.06						
	63,765.41		63,765.41				
		b/d	47,824.06				

Purchase - 20X4				Revenue - 20X4			
D			C	D			C
(I)	58,000.00	T/A	58,000.00	T/A	180,000.00	(J)	180,000.00

Interest - 20X4				Trading account T/A - 20X4			
D			C	D			C
(D)	466.56	c/d	466.56	Prh	58,000.00	Rev	180,000.00
b/d	466.56	P&L	466.56	GP	122,000.00		
					180,000.00		180,000.00
				P&L	122,000.00	b/d	122,000.00

Profit and Loss P&L - 20X4				Shareholder for Dividend			
D			C	D			C
Lab	60,000.00	T/A	122,000.00	c/d	15,941.35	R/E	15,941.35
Int	466.56					b/d	15,941.35
c/d	61,533.44						
	60,466.56		122,000.00				
ITL	18,460.03	b/d	61,533.44				
R/E	43,073.41						
	61,533.44		61,533.44				

Exhibit 2: Accounts (continued)

See below the income statements:

SPRAKENSEHL's
STATEMENT of COMPREHENSIVE INCOME
for the year ended 31.12.20X3

	[EUR]
Revenue	130,000.00
Other income	
	130,000.00
Materials	(40,000.00)
Labour	(60,000.00)
Depreciation	0.00
Other expenses	0.00
Earnings before int. & taxes (EBIT)	30,000.00
Interest	(440.00)
Earnings before taxes (EBT)	29,560.00
Income tax expenses	(8,868.00)
Deferred taxes	
Earnings after taxes (EAT)	20,692.00

Exhibit 3: Income statement 20X3

SPRAKENSEHL's
STATEMENT of COMPREHENSIVE INCOME
for the year ended 31.12.20X4

	[EUR]
Revenue	180,000.00
Other income	
	180,000.00
Materials	(58,000.00)
Labour	(60,000.00)
Depreciation	0.00
Other expenses	0.00
Earnings before int. & taxes (EBIT)	62,000.00
Interest	(466.56)
Earnings before taxes (EBT)	61,533.44
Income tax expenses	(18,460.03)
Deferred taxes	
Earnings after taxes (EAT)	43,073.41
from profit carried forward	20,692.00
to reserves (§ 150 AktG)	0.00
to other earnings reserves	0.00
to shareholders	(15,941.35)
carried forward to next period	(47,824.06)
	(0.00)

Exhibit 4: Income statement for 20X4

Below you find the disclosure of the balance sheets:

SPRAKENSEHL Ltd.'s
STATEMENT of FINANCIAL POSITION
as at 31.12.20X3

A			C, L
<i>Non-current assets</i>	[EUR]	<i>Equity</i>	[EUR]
P, P, E	8,500.00	Share capital	25,000.00
Intangibles		Reserves	
Financial assets		Retained earnings	20,692.00
<i>Current assets</i>		<i>Liabilities</i>	
Inventory	0.00	Interest bear liab	18,906.56
Accounts receivables		Accounts payables	22,033.44
Prepaid expenses	5,000.00	Provisions	
Cash/Bank	82,000.00	Tax liabilities	8,868.00
Total assets	95,500.00	Total equity and liab.	95,500.00

Exhibit 5: Balance sheet as at 31.12.20X3

SPRAKENSEHL Ltd.'s
STATEMENT of FINANCIAL POSITION
as at 31.12.20X3

A			C, L
<i>Non-current assets</i>	[EUR]	<i>Equity</i>	[EUR]
P, P, E	8,500.00	Share capital	25,000.00
Intangibles		Reserves	
Financial assets		Retained earnings	47,824.06
<i>Current assets</i>		<i>Liabilities</i>	
Inventory	0.00	Interest bear liab	18,360.32
Accounts receivables		Accounts payables	40,887.59
Prepaid expenses	5,000.00	Provisions	
Cash/Bank	137,032.00	Tax liabilities	18,460.03
Total assets	150,532.00	Total equity and liab.	150,532.00

Exhibit 6: Balance sheet as at 31.12.20X4