

Task IM-4.26: Preparing Financial Statements via Trial Balance

SUNVALLEY (Pty) Ltd. is a kite surf shop and training camp. It sells and rents out kite surfing equipment. SUNVALLEY (Pty) Ltd. is established on 1.01.20X2 by the owner paying 70,000.00 EUR into the company's bank account. SUNVALLEY (Pty) Ltd. takes a bank loan to the extent of 50,000.00 EUR on 2.02.20X2. The rate of interest is 3.3 %/a and the pay-off is amounting to 2,500.00 EUR on every 31th December. Disclose pay-off for 20X3 as short-term liabilities but do not discount.

On 5.02.20X2, SUNVALLEY (Pty) Ltd. purchases 20 kite boards and 30 kites at 1,500.00 EUR and 800.00 EUR cost of purchase (net amount) respectively. You have to consider VAT at a VAT-rate of 20 %. The goods are bought half on cash – half on credit. The open payments are due in 20X3.

During the Accounting period 20X2, SUNVALLEY rents out 10 kites boards and kites. The rent for the equipment (one board plus one kite) is amounting to 24.00 EUR/h (gross amount). During the year 20X2, SUNVALLEY (Pty) Ltd. rents out board+kites for 1,360 hours. All customers pay on cash.

For the renting out business you are supposed to add 10 kite boards and 10 kites to property, plant and equipment. Depreciation thereon equals to 25 % for 20X2.

During the Accounting period 20X2, 9 kites boards and 14 kites are sold at a gross selling price which is amounting to 2.4 times their cost of purchase. All customers pay on cash.

The rent for the shop is 750.00 EUR/m. It is paid one month in advance. The business commences in March 20X2. For January and February no rent is requested. The rental payments start in February. Rent is not subjected to VAT.

There are no further activities relevant for this case study.

Required: Prepare a full set of financial statements which comprises a statement of profit and loss and other comprehensive income, a statement of financial position, a statement of changes in equity and a statement of cash flows. Apply methods at your discretion.

Solution:

- (1) Issue of shares
- (2) Taking the bank loan
- (3) Payment of interest: $3.3\% \times 50,000 \times 11/12 = 1,512.50 \text{ EUR}$

DR Interest	1,512.50 EUR
CR Cash/Bank	1,512.50 EUR

- (4) Payment of pay-off at the end of the Accounting period: 2,500.00 EUR (given)
- (5) Disclosure of short-term liabilities for pay-off due on 31.12.20X3: 2,500.00 EUR
- (6) Purchase of kite boards: $20 \times 1,500 \times 1.2 = 36,000.00 \text{ EUR}$.

DR Purchase	30,000.00 EUR
DR VAT	6,000.00 EUR
CR Cash/Bank	18,000.00 EUR
CR Accounts Payables	18,000.00 EUR
DR P, P, E	15,000.00 EUR
CR Purchase	15,000.00 EUR

(7) Purchase of kites: $30 \times 800 \times 1.2 = 28,800.00$ EUR.

DR Purchase	24,000.00 EUR
DR VAT	4,800.00 EUR
CR Cash/Bank	14,400.00 EUR
CR Accounts Payables	14,400.00 EUR
DR P, P, E	8,000.00 EUR
CR Purchase	8,000.00 EUR

(8) Depreciation is based on 10 kite boards and 10 kites: $25\% \times 10 \times (1,500 + 800) = 5,750$ EUR.

(9) Rental income equals to: $1,360 \times 24 / 1.2 = 27,200.00$ EUR

DR Cash/Bank	32,640.00 EUR
CR VAT	5,440.00 EUR
CR Revenue	27.200.00 EUR

(10) Sales of 8 kite boards: $9 \times 2.4 \times 1,500 / 1.2 = 27,000.00$ EUR.

DR Cash/Bank	32,400.00 EUR
CR VAT	5,400.00 EUR
CR Sales	27,000.00 EUR

(11) Sales of 14 kites: $14 \times 2.4 \times 800 / 1.2 = 22,400.00$ EUR.

DR Cash/Bank	26,880.00 EUR
CR VAT	4,480.00 EUR
CR Sales	22,400.00 EUR

(12) Rental payments: $11 \times 750 = 8,250.00$ EUR

DR Rent	8,250.00 EUR
CR Cash/Bank	8,250.00 EUR

(13) The last rental payment is for the Accounting period 20X3.

DR Prepaid Expenses	750.00 EUR
CR Rent	750.00 EUR

Observe the accounts below:

D		Cash/Bank	C		D		Issued capital	C	
(1)	70,000.00	(3)	1,512.50		c/d	70,000.00	(1)	70,000.00	
(2)	50,000.00	(4)	2,500.00				b/d	70,000.00	
(9)	32,640.00	(6a)	18,000.00						
(10)	32,400.00	(7a)	14,400.00						
(11)	26,880.00	(12)	8,250.00						
		c/d	167,257.50						
	<u>211,920.00</u>		<u>211,920.00</u>						
b/d	167,257.50								

D		Interest bearing liabilities	C		D		Interest	C	
(4)	2,500.00	(2)	50,000.00		(3)	1,512.50	P&L	1,512.50	
(5)	2,500.00								
c/d	45,000.00								
	<u>50,000.00</u>		<u>50,000.00</u>						
		b/d	45,000.00						

Exhibit 1: Accounts

D		Accounts payables A/P	C
		(5)	2,500.00
		(6a)	18,000.00
		(7a)	14,400.00
c/d	34,900.00		
	<u>34,900.00</u>		<u>34,900.00</u>
		b/d	34,900.00

D		Purchase	C
(6a)	30,000.00	(6b)	15,000.00
(7a)	24,000.00	(7b)	8,000.00
		c/d	31,000.00
	<u>54,000.00</u>		<u>54,000.00</u>
b/d	31,000.00	T/A	31,000.00

D		VAT	C
(6a)	6,000.00	(9)	5,440.00
(7a)	4,800.00	(10)	5,400.00
c/d	4,520.00	(11)	4,480.00
	<u>15,320.00</u>		<u>15,320.00</u>
		b/d	4,520.00

D		P, P, E	C
(6b)	15,000.00		
(7b)	8,000.00	c/d	23,000.00
	<u>23,000.00</u>		<u>23,000.00</u>
b/d	23,000.00		

D		Depreciation	C
(8)	5,750.00	P&L	5,750.00

D		Acc depr	C
c/d	5,750.00	(8)	5,750.00
		b/d	5,750.00

D		Sales	C
		(10)	27,000.00
		(11)	22,400.00
c/d	49,400.00		
	<u>49,400.00</u>		<u>49,400.00</u>
T/A	49,400.00	b/d	49,400.00

D		Rent	C
(12)	8,250.00	(13)	750.00
		c/d	7,500.00
	<u>8,250.00</u>		<u>8,250.00</u>
b/d	7,500.00		

D		Prepaid expenses	C
(13)	750.00	c/d	750.00
b/d	750.00		

D		Revenue	C
P&L	27,200.00	(9)	27,200.00

D		T/A	C
PRH	31,000.00	SAL	49,400.00
		INV	1,500.00
GP	24,700.00	INV	4,800.00
	<u>55,700.00</u>		<u>55,700.00</u>
P&L	24,700.00	b/d	24,700.00

D		P&L	C
INT	1,512.50	T/A	24,700.00
RNT	7,500.00	REV	27,200.00
DPR	5,750.00		
NP	37,137.50		
	<u>51,900.00</u>		<u>51,900.00</u>
ITL	11,141.25	b/d	37,137.50
R/E	25,996.25		
	<u>37,137.50</u>		<u>37,137.50</u>

D	Inventory		C
T/A	1,500.00		
T/A	4,800.00	c/d	6,300.00
	<u>6,300.00</u>		<u>6,300.00</u>
b/d	6,300.00		

Exhibit 1: Accounts (continued)

Sunvalley (Pty) Ltd.'s
STATEMENT of FINANCIAL POSITION
as at 31.12.20X2

A			C, L
<i>Non-current assets</i>	[EUR]	<i>Equity</i>	[EUR]
P, P, E	17,250.00	Share capital	70,000.00
Intangibles		Reserves	
Financial assets		Retained earnings	25,996.25
<i>Current assets</i>		<i>Liabilities</i>	
Inventory	6,300.00	Interest bear liab	45,000.00
Accounts receivables		Accounts payables	39,420.00
Prepaid expenses	750.00	Provisions	
Cash/Bank	167,257.50	Tax liabilities	11,141.25
Total assets	191,557.50	Total equity and liab.	191,557.50

Exhibit 2: Balance sheet

Sunvalley Ltd.'s
STATEMENT of PROFIT & LOSS
and OTHER COMPREHENSIVE INCOME
for the year ended 31.12.20X2

	[EUR]
Revenue	76,600.00
Other income	6,300.00
	<u>82,900.00</u>
Materials	(31,000.00)
Labour	
Depreciation	(5,750.00)
Other expenses	<u>(7,500.00)</u>
Earnings before int. & taxes (EBIT)	38,650.00
Interest	<u>(1,512.50)</u>
Earnings before taxes (EBT)	37,137.50
Income tax expenses	(11,141.25)
Deferred taxes	
Earnings after taxes (EAT)	<u>25,996.25</u>

Exhibit 3: Income statement

Sunvalley (Pty) Ltd.'s
STATEMENT of CHANGES in EQUITY
as at 31.12.20X2

	Share capital	Reserves	Retained earnings	total
	[EUR]	[EUR]	[EUR]	[EUR]
as at 1.01.20X2				0.00
Share issue	50,000.00			50,000.00
Profit 20X2			25,996.25	25,996.25
Dividend 20X2				0.00
Additions to reserves				0.00
as at 31.12.20X0	<u>50,000.00</u>	<u>0.00</u>	<u>25,996.25</u>	<u>75,996.25</u>

Exhibit 4: Statement of changes in equity

**Sunvalley (Pty) Ltd.'s
STATEMENT of CASH FLOWS
for the period ended 31.12.20X2**

<i>Cash flow from operating activities</i>		
EBT	37,137.50	
add Interest paid	1,512.50	
add Depreciation	5,750.00	
	<u>44,400.00</u>	
<i>changes in working capital</i>		
changes in A/R, prepaid expenses	(750.00)	
changes in inventory	(6,300.00)	
changes in A/P, only materials	18,600.00	
changes in VAT/r only materials	(6,200.00)	
changes in VAT/p	15,320.00	
		<u>65,070.00</u>
<i>Cash flow from investing activities</i>		
Investments	(13,800.00)	
		<u>(13,800.00)</u>
<i>Cash flow from financing activities</i>		
Share issue	70,000.00	
Bank loan received	50,000.00	
Pay-off plus interest	(4,012.50)	
		<u>115,987.50</u>
Total cash flow		<u><u>167,257.50</u></u>

Exhibit 5: Statement of cash flows