

Task IM-4.30: Preparing Financial Statements from a Trial Balance

WITBERG Ltd. is a South African kitchen appliance dealer. The company is established on 4.01.20X4. As at 31.12.20X6, WITBERG Ltd. provides the trial balance (list of the balances brought down for all accounts before adjustments) before adjustments were made:

Witberg Ltd.'s TRIAL BALANCE as at 31.12.20X6		
Account	Debit entries	Credit entries
	[ZAR]	[ZAR]
Property, Plant, Equipment	240,000.00	
Accumulated Depreciation		66,600.00
Share capital		1,000,000.00
Retained Earnings		300,000.00
Purchase	1,450,000.00	
Inventories	250,000.00	
Rent	520,000.00	
Accounts payables		1,020,995.20
Interest Bearing Liabilities		341,564.80
Labour	1,800,000.00	
Returns Inwards	75,000.00	
Sales Revenue		2,800,000.00
Cash/Bank	1,194,160.00	
Total:	5,529,160.00	5,529,160.00

Exhibit 1: Trial balance

For the adjustments you have to calculate:

- (1) Depreciation based on declining method. Depreciation commenced based on the total of tangible assets on 4.01.20X4. The annual depreciation rate is 15 %.
- (2) Material expenses. WITBERG Ltd. applies a periodic inventory system. The goods' closing stock is amounting to 230,000.00 ZAR. During the Accounting period 20X6 returned goods are included therein.
- (3) Interest and pay-off. The bank loan is an annuity with an annual rate of interest of 8 %/a and an annuity of 50,000.00 ZAR taken on 5.01.20X4. The principal is amounting to 400,000.00 ZAR. There are no other interest bearing liabilities.
- (4) Rental expenses. Rent is paid one month in advance. Prepaid expenses as at 1.01.20X6 have been added to the Rent account at the beginning of the Accounting period 20X6. For that reason no prepaid expenses are disclosed on the trial balance.
- (5) Profit for the Accounting period 20X6.

Required: Prepare a statement of profit and loss and other comprehensive income. Ignore VAT. Feel free to use the accounts provided below:

WITBERG Ltd. ist ein Südafrikanischer Küchengerätehändler. Das Unternehmen wird am 4.01.20X4 gegründet. Zum 31.12.20X6 erstellt WITBERG Ltd. die Saldenliste (trial balance) vor Abschlussbuchungen:

Witberg Ltd.'s TRIAL BALANCE as at 31.12.20X6		
Account	Debit entries	Credit entries
	[ZAR]	[ZAR]
Property, Plant, Equipment	240,000.00	
Accumulated Depreciation		66,600.00
Share capital		1,000,000.00
Retained Earnings		300,000.00
Purchase	1,450,000.00	
Inventories	250,000.00	
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Exhibit 1: Saldenliste

Als Abschlussbuchungen haben Sie zu berechnen:

- (1) Degressive Abschreibung: Die Abschreibungsbeträge werden auf der Grundlage des Sachanlagevermögens am 4.01.20X4 berechnet. Seither ist der Bestand des Sachanlagevermögens unverändert. Der Abschreibungsprozentsatz beträgt 15 %.
- (2) Materialaufwand: WITBERG Ltd. wendet ein periodisches Lagerhaltungssystem an. Der Schlußbestand der Waren beträgt 230,000.00 ZAR. Während der Abrechnungsperiode 20X6 wurden Geräte zurückgegeben und sind im Schlußbestand berücksichtigt.
- (3) Zins und Tilgung: Das Bankdarlehen ist ein Annuitätendarlehen mit einem jährlichen Zinssatz von 8 %/Jahr und eine jährlichen Annuität von 50,000.00 ZAR/Jahr, das am 5.01.20X4 aufgenommen wurde. Der Darlehnsbetrag ist 400,000.00 ZAR. Es gibt keine weiteren Bankschulden.
- (4) Mietaufwand: Miete wird einen Monat im Voraus gezahlt. Vorausgezahlte Mieten zum 1.01.20X6 wurden zu den Mietaufwendungen zu Beginn der Abrechnungsperiode bereits zugerechnet. Daher sind keine Vorauszahlungen in der Saldenliste aufgeführt.
- (5) Periodenergebnis für die Abrechnungsperiode 20X6.

Gefragt: Erstellen Sie eine Gewinn- und Verlustrechnung für das Jahr 20X6. (for IBM+WDH: prepare a balance sheet, too). Vernachlässigen Sie die Umsatzsteuer. Sie können die unten stehenden Konten verwenden.

D	Property, Plant, Equipment-20X6 PPE	C	D	Accumulated depreciation ACC	C
TB	240,000.00			TB	66,600.00
D	Share capital SCP	C	D	Retained earnings R/E	C
	TB	1,000,000.00		TB	300,000.00
D	Purchase-20X6 PRC	C	D	Inventories INV	C
TB	1,450,000.00		TB	250,000.00	
D	Rent-20X6 RNT	C	D	Interest-20X6 INT	C
TB	520,000.00				
D	Short-term liabilities A/P	C	D	Interest bearing liabilities IBL	C
	TB	1,020,995.20		TB	341,564.80
D	Labour-20X6 LAB	C	D	Returns Inwards R.I.	C
TB	1,800,000.00		TB	75,000.00	
D	Sales revenue-20X6 REV	C	D	Cash/Bank C/B	C
	TB	2,800,000.00	TB	1,165,155.20	
D		C	D		C
D		C	D		C

Exhibit: Accounts (TB = Trial balance)

Solution:

In the first step, we prepare the accounts. Bookkeeping entries following are added to the accounts.

(1) Depreciation is based on declining method and the remaining amount is $240,000 - 66,600 = 173,400.00$ ZAR. Hence, depreciation charge is: $(173,400/240,000)^{1/2} + 1 = 15\%$. Depreciation in the 20X6 equals to $= 173,400 \times 15\% = 26,010.00$ ZAR.

DR Depreciation 26,010.00 ZAR

CR Acc Depr. 26,010.00 ZAR

(2) Material expenses require to prepare a Trading account. The material expenses are: $250,000 + 1,450,000 - 230,000 = 1,470,000.00$ ZAR. Observe the gross profit calculation in the accounts.

(3) Calculate the interest and pay-off as below:

WITBERG Ltd.'s INTEREST and PAY-OFF PLAN

Year	Opening amount [EUR]	Interest [EUR]	Pay-off [EUR]	Annuity [EUR]	Rest [EUR]
20X4	400,000.00	32,000.00	18,000.00	50,000.00	382,000.00
20X5	382,000.00	30,560.00	19,440.00	50,000.00	362,560.00
20X6	362,560.00	29,004.80	20,995.20	50,000.00	341,564.80
20X7	341,564.80	27,325.18	22,674.82	50,000.00	318,889.98

DR Short-term Liabilities 20,995.20 ZAR

CR Cash/Bank 20,995.20 ZAR

DR Interest Bearing Liabilities 22,674.82 ZAR

CR Short-term Liabilities 22,674.82 ZAR

(4) Rental expenses are $12 \times (520,000/13) = 480,000.00$ ZAR.

DR Prepaid Expenses 40,000.00 ZAR

CR Rent 40,000.00 ZAR

(5) Profit calculation is in the accounts.

D Property, Plant, Equipment-20X6 PPE C			D Accumulated depreciation ACC C		
TB	240,000.00	c/d	240,000.00	TB	66,600.00
b/d	240,000.00			(1)	26,010.00
					92,610.00
				b/d	92,610.00

D		Share capital SCP	C
c/d	<u>1,000,000.00</u>	TB	<u>1,000,000.00</u>
		b/d	<u>1,000,000.00</u>

D		Retained earnings R/E	C
P&L	<u>1,080,014.80</u>	TB	<u>300,000.00</u>
		c/d	<u>780,014.80</u>
	<u>1,080,014.80</u>		<u>1,080,014.80</u>
b/d	<u>780,014.80</u>		

D		Purchase-20X6 PRC	C
TB	<u>1,450,000.00</u>	T/A	<u>1,450,000.00</u>

D		Inventories INV	C
TB	<u>250,000.00</u>	T/A	<u>250,000.00</u>
T/A	<u>230,000.00</u>	c/d	<u>230,000.00</u>
	<u>480,000.00</u>		<u>480,000.00</u>
b/d	<u>230,000.00</u>		

D		Rent-20X6 RNT	C
TB	<u>520,000.00</u>	PRE	<u>40,000.00</u>
		P&L	<u>480,000.00</u>
	<u>520,000.00</u>		<u>520,000.00</u>

D		Interest-20X6 INT	C
TB	<u>29,004.80</u>	P&L	<u>29,004.80</u>

D		Short-term liabilities A/P	C
C/B	<u>20,995.20</u>	TB	<u>1,020,995.20</u>
c/d	<u>1,022,674.82</u>	A/P	<u>22,674.82</u>
	<u>1,043,670.02</u>		<u>1,043,670.02</u>
		b/d	<u>1,022,674.82</u>

D		Interest bearing liabilities IBL	C
A/P	<u>22,674.82</u>	TB	<u>341,564.80</u>
c/d	<u>318,889.98</u>		<u>341,564.80</u>
	<u>341,564.80</u>		<u>341,564.80</u>
		b/d	<u>318,889.98</u>

D		Labour-20X6 LAB	C
TB	<u>1,800,000.00</u>	P&L	<u>1,800,000.00</u>

D		Returns Inwards R.I.	C
TB	<u>75,000.00</u>	T/A	<u>75,000.00</u>

D		Sales revenue-20X6 REV	C
T/A	<u>2,800,000.00</u>	TB	<u>2,800,000.00</u>

D		Depreciation-20X6	C
(1)	<u>26,010.00</u>	P&L	<u>26,010.00</u>

D		Cash/Bank C/B	C
TB	<u>1,165,155.20</u>	A/P	<u>20,995.20</u>
		c/d	<u>1,144,160.00</u>
	<u>1,165,155.20</u>		<u>1,165,155.20</u>
b/d	<u>1,144,160.00</u>		

D		Prepaid expenses PRE	C
RNT	<u>40,000.00</u>	c/d	<u>40,000.00</u>
b/d	<u>40,000.00</u>		

Trading account T/A				Profit and Loss-20X6 P&L			
D			C	D			C
INV	250,000.00	REV	2,800,000.00	RNT	480,000.00	T/A	1,255,000.00
PRC	1,450,000.00	INV	230,000.00	INT	29,004.80		
R.I.	75,000.00			DPR	26,010.00		
GP	1,255,000.00			LAB	1,800,000.00	R/E	1,080,014.80
	<u>3,030,000.00</u>		<u>3,030,000.00</u>		<u>2,335,014.80</u>		<u>2,335,014.80</u>
P&L	1,255,000.00	b/d	1,255,000.00				

Exhibit: Accounts

Witberg Ltd.'s
STATEMENT of FINANCIAL POSITION

A		as at 31.12.20X6		C, L	
<i>Non-current assets</i>		[EUR]		<i>Equity</i>	
P, P, E	147,390.00			Share capital	1,000,000.00
Intangibles				Reserves	
Financial assets				Retained earnings	(780,014.80)
<i>Current assets</i>				<i>Liabilities</i>	
Inventory	230,000.00			Interest bear liab	318,889.98
Accounts receivables				Accounts payables	1,022,674.82
Prepaid expenses	40,000.00			Provisions	
Cash/Bank	<u>1,144,160.00</u>			Tax liabilities	
Total assets	1,561,550.00			Total equity and liab.	1,561,550.00

Exhibit: WITBERG Ltd.'s balance sheet

Witberg Ltd.'s
STATEMENT of PROFIT & LOSS
and OTHER COMPREHENSIVE INCOME
for the year ended 31.12.20X6

	[EUR]
Revenue	2,725,000.00
	<u>2,725,000.00</u>
Materials	(1,470,000.00)
Labour	(1,800,000.00)
Depreciation	(26,010.00)
Other expenses	<u>(480,000.00)</u>
Earnings before int. & taxes (EBIT)	(1,051,010.00)
Interest	<u>(29,004.80)</u>
Earnings before taxes (EBT)	(1,080,014.80)
Income tax expenses	0.00
Deferred taxes	
Earnings after taxes (EAT)	(1,080,014.80)

Exhibit: Witberg Ltd.'s income statement