

Task IM-4.32: Preparing Financial Statements

FINKENKRUG Ltd. is a South African Accounting firm based on shares. The company is established on 2.01.20X1 by an issue of 1,000,000 ordinary shares at 1.00 ZAR. The share issue is par value. For the establishment, FINKENKURG Ltd. pays legal fees and attorney costs of 15,000.00 ZAR, (together, the payment is once-off, no VAT to be considered for the legal expenses). The attorney registers FINKENKRUG Ltd. for VAT reduction.

On 3.01.20X1, FINKENKRUG Ltd. opens an account with the bank and pays 150.00 ZAR/month fees. The fees are not subjected to VAT. They are due one month in advance, hence, in January 20X1, FINKENKRUG Ltd. pays the fees on 3.01.20X1 and 30.01.20X1, the latter ones for February 20X1.

On 10.01.20X1, FINKENKRUG Ltd. buys a laptop and Accounting computer software for 25,000.00 ZAR cost of acquisition (together). The computer system (hardware + software) has a useful life of 2 years and will be depreciated by 12,500.00 ZAR/annum.

FINKENKURG Ltd. has 5 employees, thereof: 4 consultant and 1 manager. The 4 consultants earn 75,000.00 ZAR/month and employee and the manager 100,000.00 ZAR/month. The salary is paid at the end of the month it is for. (You do not have to consider extra costs for labour, assume the labour costs consists of the net salary, payroll tax and social security payments).

During the Accounting period 20X1, FINKENKRUG Ltd. works on 24 customer projects and charges 250,000.00 ZAR for each project (net amount).

At the end of the Accounting period 20X1, the board of directors declares a dividend of 0.35 ZAR/share; the remaining profit is to be carried forward to the next fiscal year. Add the dividend to the Accounts Payables account.

Required: Prepare a full set of financial statements which comprises of a balance sheet, a statement of profit and loss and other comprehensive income, a statement of cash flows and a statement of changes in equity. Consider VAT at a VAT rate of 20%. All transactions are cash or bank transactions.

Solution:

- (1) Establishment of the company.
- (2) Legal fees: 15,000.00 ZAR.
- (3) Bank fee payments: $13 \times 150 = 1,950.00$ ZAR.
- (4) Accrual of prepaid expenses for the bank fees: 150.00 ZAR.

DR Prepaid expenses	150.00 ZAR
CR Bank Fees	150.00 ZAR

- (5) Acquisition of computer at 25,000.00 ZAR. The payment equals to $120\% \times 25,000 = 30,000.00$ ZAR.

DR P, P, E	25,000.00 ZAR
DR VAT	5,000.00 ZAR
CR Cash/Bank	30,000.00 ZAR

(6) Depreciation: 12,500.00 ZAR

(7) Labour in 20X1 is amounting to: $(4 \times 75,000 + 100,000) \times 12 = 4,800,000.00$ ZAR.

(8) Revenue in 20X1 is amounting to: $24 \times 250,000 = 6,000,000.00$ ZAR. The amount paid by the customers equals to: $6,000,000 \times 120\% = 7,200,000.00$ ZAR.

DR Cash/Bank	7,200,000.00 ZAR
CR VAT	1,200,000.00 ZAR
CR Revenue	6,000,000.00 ZAR

Observe the profit calculation and the appropriation thereof below:

Cash/Bank				Issued capital			
D			C	D			C
(1)	1.000.000,00	(2)	15.000,00	c/d	1.000.000,00	(1)	1.000.000,00
(8)	7.200.000,00	(3)	1.950,00			b/d	1.000.000,00
		(5)	30.000,00				
		(7)	4.800.000,00				
		c/d	3.353.050,00				
	<u>8.200.000,00</u>		<u>8.200.000,00</u>				
b/d	3.353.050,00						

Legal expenses LEG				Bank fees BNK			
D			C	D			C
(2)	15.000,00	c/d	15.000,00	(3)	1.950,00	(4)	150,00
b/d	15.000,00	P&L	15.000,00			c/d	1.800,00
					<u>1.950,00</u>		<u>1.950,00</u>
				b/d	1.800,00	P&L	1.800,00

Exhibit 1: FINKENKRUG Ltd.'s accounts

D		Prepaid expenses	C
(4)	150,00	c/d	150,00
b/d	150,00		

D		P, P, E	C
(5)	25.000,00	c/d	25.000,00
b/d	25.000,00		

D		VAT	C
(5)	5.000,00	(8)	1.200.000,00
c/d	1.195.000,00		
	1.200.000,00		1.200.000,00
		b/d	1.195.000,00

D		Depreciation DPR	C
(6)	12.500,00	c/d	12.500,00
b/d	12.500,00	P&L	12.500,00

D		Acc depr	C
c/d	12.500,00	(6)	12.500,00
		b/d	12.500,00

D		Labour LAB	C
(7)	4.800.000,00	c/d	4.800.000,00
b/d	4.800.000,00	P&L	4.800.000,00

D		Revenue REV	C
c/d	6.000.000,00	(8)	6.000.000,00
P&L	6.000.000,00	b/d	6.000.000,00

D		Profit and Loss P&L	C
LEG	15.000,00	REV	6.000.000,00
BNK	1.800,00		
DPR	12.500,00		
LAB	4.800.000,00		
EBT	1.170.700,00		
	6.000.000,00		6.000.000,00
ITL	351.210,00	b/d	1.170.700,00
R/E	819.490,00		
	1.170.700,00		1.170.700,00

D		Income tax liabilities ITL	C
c/d	351.210,00	P&L	351.210,00
		b/d	351.210,00

D		Retained earnings R/E	C
SHD	350.000,00	P&L	819.490,00
c/d	469.490,00		
	819.490,00		819.490,00
		b/d	469.490,00

D		Accounts payables SHD	C
c/d	350.000,00	R/E	350.000,00
		b/d	350.000,00

Find below the financial statements for FINKENKRUG Ltd.:

Finkenkrug Ltd.'s
STATEMENT of PROFIT & LOSS
and OTHER COMPREHENSIVE INCOME
for the year ended 31.12.20X1

	[ZAR]
Revenue	6.000.000,00
Other income	—
	6.000.000,00
Materials	
Labour	(4.800.000,00)
Depreciation	(12.500,00)
Other expenses	(16.800,00)
Earnings before int. & taxes (EBIT)	1.170.700,00
Interest	—
Earnings before taxes (EBT)	1.170.700,00
Income tax expenses	(351.210,00)
Deferred taxes	—
Earnings after taxes (EAT)	819.490,00

Exhibit 2: Income statement

Finkenkrug Ltd.'s
STATEMENT of FINANCIAL POSITION
as at 31.12.20X1

A			C, L
<i>Non-current assets</i>	[ZAR]	<i>Equity</i>	[ZAR]
P, P, E	12.500,00	Share capital	1.000.000,00
Intangibles		Reserves	
Financial assets		Retained earnings	469.490,00
<i>Current assets</i>		<i>Liabilities</i>	
Inventory		Interest bear liab	
Accounts receivables		Accounts payables	1.545.000,00
Prepaid expenses	150,00	Provisions	
Cash/Bank	3.353.050,00	Tax liabilities	351.210,00
Total assets	3.365.700,00	Total equity and liab.	3.365.700,00

Exhibit 3: Balance sheet

Finkenkrug Ltd.'s
STATEMENT of CASH FLOWS
for the period ended 31.12.20X1

<i>Cash flow from operating activities</i>	
Proceeds	7.200.000,00
Legal expenses	(15.000,00)
Bank fees	(1.950,00)
Labour	(4.800.000,00)
	2.383.050,00
<i>Cash flow from investing activities</i>	
Investments	(30.000,00)
	(30.000,00)
<i>Cash flow from financing activities</i>	
Share issue	1.000.000,00
	1.000.000,00
Total cash flow	3.353.050,00

Exhibit 4: Statement of cash flows

Finkenkrug Ltd.'s
STATEMENT of CHANGES in EQUITY
as at 31.12.20X1

	Share capital	Reserves	Retained earnings	total
	[ZAR]	[ZAR]	[ZAR]	[ZAR]
as at 1.01.20X1				0,00
Share issue	1.000.000,00			1.000.000,00
Profit 20X1			819.490,00	819.490,00
Dividend 20X1			(350.000,00)	(350.000,00)
as at 31.12.20X0	1.000.000,00	0,00	469.490,00	1.469.490,00

Exhibit 5: Statement of changes in equity