

Task IM-4.38: Preparing Financial Statements

The case study is based on the textbook Financial Statements in chapter (4). There, the balance sheet is given as in Exhibit 1:

Ryneveld Ltd.'s STATEMENT of FINANCIAL POSITION as at 31.12.20X6			
A			C, L
<i>Non-current assets</i>	[ZAR]	<i>Equity</i>	[ZAR]
P, P, E	180,000.00	Share capital	500,000.00
Intangibles		Reserves	
Financial assets		Retained earnings	72,100.00
<i>Current assets</i>		<i>Liabilities (liab.)</i>	
Inventory	56,000.00	Long-term liab. IBL	120,000.00
Acc. receivables A/R		Short-term liab. A/P	209,000.00
Prepaid expenses	3,000.00	Provisions	
Cash/Bank	693,000.00	Income tax liab.	30,900.00
Total assets	932,000.00	Total equity and liab.	932,000.00

Exhibit 1: Balance sheet

The company prepared an income statement for its first Accounting period 20X6. Check Exhibit 2.

Ryneveld Ltd.'s STATEMENT of PROFIT & LOSS and OTHER COMPREHENSIVE INCOME for the year ended 31.12.20X6	
	[ZAR]
Revenue	545,000.00
Other income	
	545,000.00
Materials	(194,000.00)
Depreciation	(20,000.00)
Other expenses	(216,000.00)
Earnings before int. & taxes (EBIT)	115,000.00
Interest	(12,000.00)
Earnings before taxes (EBT)	103,000.00
Income tax expenses	(30,900.00)
Deferred taxes	
Earnings after taxes (EAT)	72,100.00

Exhibit 2: Income statement

Continue the case study RYNEVELD Ltd. from chapter 4 as follows:

- (A) Recording of January 20X7 rent.
 (B) Payment of income tax liabilities.
 (C) Payment of VAT liabilities.
 (D) Payment of liabilities to suppliers.
 (E) Payment of rent. Rent increases from 1.04.20X7 onwards by 10 % (once-off)
 (F) Record depreciation to the extent of 20,000.00 ZAR
 (G) Purchase of materials on 30.03.20X7 at 200,000.00 ZAR net amount. Payment in full.
 (H) Purchase of material on 30.09.20X7 at 160,000.00 ZAR net amount. Payment in full.
 (I) Returns to suppliers to an extent of 34,000.00 ZAR net amount. Receipt of a voucher in return.
 (J) Operational expenses: 220,000.00 ZAR ~~net amount~~.
 (K) Closing stock of materials is 46,000.00 ZAR. (after returns)
 (L) Payment of interest to an extent of 6 %/a. (You must check the amount owing!)
 (M) Payment of pay-off for the bank loan (20X7).
 (N) Reclassification of pay-off for 20X8.
 (O) Revenue is 600,000.00 ZAR (net amount).
 (P) Record accruals for rent Jan. 20X8.
 (Q) Appropriation of profits: Dividends 20 %; Additions to reserves: 35 %; remainder is carried forward.

Required: Prepare the accounts for the next Accounting period 20X7. Prepare the T/B and adjusted T/B (you must decide, what counts for adjustments!). Prepare a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.

Solution:

Observe the accounts at the end of the Accounting period:

Cash/Bank C/B			Share capital ISS			Interest bearing liabilities IBL					
(1)	500,000.00	(3)	12,000.00	c/d	500,000.00	(1)	500,000.00	C/B	40,000.00	(2)	200,000.00
(2)	200,000.00	(4)	39,000.00			b/d	500,000.00	A/P	40,000.00		
(7)	654,000.00	(5)	240,000.00					c/d	120,000.00		
		(6)	150,000.00						200,000.00		200,000.00
		(8)	180,000.00					(N)	40,000.00	b/d	120,000.00
		c/d	733,000.00					c/d	80,000.00		
	1,354,000.00		1,354,000.00						120,000.00		120,000.00
b/d	733,000.00	IBL	40,000.00							b/d	80,000.00
		c/d	693,000.00								
	733,000.00		733,000.00								
b/d	693,000.00	(B)	30,900.00								
(O)	720,000.00	(C)	19,000.00								
		(D)	150,000.00								
		(E)	39,000.00								
		(G)	240,000.00								
		(H)	192,000.00								
		(J)	220,000.00								
		c/d	522,100.00								
	1,413,000.00		1,413,000.00								
b/d	522,100.00	(L)	9,600.00								
		(M)	40,000.00								
		c/d	472,500.00								
	522,100.00		522,100.00								
b/d	472,500.00										

Interest-20X6 INT				Rent-20X6 RNT				Prepaid expenses PRE			
D	(3)	12,000.00	C	D	(4)	39,000.00	C	D	RNT	3,000.00	C
			P&L				PRE				c/d
			12,000.00				3,000.00				3,000.00
							c/d		b/d	3,000.00	(A)
							36,000.00				3,000.00
							39,000.00		(P)	3,300.00	c/d
							39,000.00				3,300.00
					b/d	36,000.00	P&L			6,300.00	
							36,000.00				6,300.00
									b/d	3,300.00	
Property, plant, equipment PPE				Value added tax VAT [20%]				Purchases-20X6 PUR			
D	(5)	200,000.00	C	D	(5)	40,000.00	C	D	(6)	250,000.00	C
			c/d				(7)				T/A
			200,000.00				109,000.00				250,000.00
	b/d	200,000.00									

Retained earnings R/E		Rent-20X7 RNT		Purchase-20X7 PUR	
D	C	D	C	D	C
c/d 72,100.00	P&L 72,100.00	(A) 3,000.00		(G) 200,000.00	
P&L 24,300.00	b/d 72,100.00	(E) 39,000.00	c/d 42,000.00	(H) 160,000.00	c/d 360,000.00
c/d 47,800.00		42,000.00	42,000.00	360,000.00	360,000.00
72,100.00	72,100.00	b/d 42,000.00	(P) 3,300.00	b/d 360,000.00	T/A 360,000.00
S&D 9,560.00	b/d 47,800.00		c/d 38,700.00		
RES 16,730.00		42,000.00	42,000.00		
c/d 21,510.00		b/d 38,700.00	P&L 38,700.00		
47,800.00	47,800.00				
	b/d 21,510.00				

Returns Outwards-20X7 R.O		Accounts receivables A/R		Operational expenses-20X7 OEX	
D	C	D	C	D	C
c/d 34,000.00	(I) 34,000.00	(I) 40,800.00	c/d 40,800.00	(J) 220,000.00	c/d 220,000.00
T/A 34,000.00	b/d 34,000.00	b/d 40,800.00		b/d 220,000.00	P&L 220,000.00

Revenue-20X7 REV		Depreciation-20X7 DPR		Interest-20X7 INT	
D	C	D	C	D	C
c/d 600,000.00	(O) 600,000.00	ACC 20,000.00	P&L 20,000.00	(L) 9,600.00	P&L 9,600.00
T/A 600,000.00	b/d 600,000.00				

Trading account-20X7 T/A		Profit and Loss-20X7 P&L		Shareholders for Dividends S&D	
D	C	D	C	D	C
INV 56,000.00	REV 600,000.00	DPR 20,000.00	T/A 264,000.00	c/d 9,560.00	S&D 9,560.00
PUR 360,000.00	INV 46,000.00	INT 9,600.00			b/d 9,560.00
GP 264,000.00	R.O 34,000.00	OEX 220,000.00			
680,000.00	680,000.00	RNT 38,700.00			
P&L 264,000.00	b/d 264,000.00		EBT 24,300.00		
			288,300.00		
		b/d 24,300.00	R/E 24,300.00		

Reserves RES	
D	C
c/d 16,730.00	RES 16,730.00
	b/d 16,730.00

Exhibit 1: Accounts (after adjustments)

Find below both trial balances:

Ryneveld Ltd.'s TRIAL BALANCE as at 31.12.20X7			Ryneveld Ltd.'s adjusted TRIAL BALANCE as at 31.12.20X7		
Account	Debit entries	Credit entries	Account	Debit entries	Credit entries
C/B			C/B	472,500.00	
ISS		500,000.00	ISS		500,000.00
IBL		120,000.00	IBL		80,000.00
INT			INT	0.00	0.00
RNT	42,000.00		RNT	0.00	0.00
PPE	200,000.00		PPE	200,000.00	
VAT		54,800.00	VAT		54,800.00
PUR	360,000.00		PUR	0.00	0.00
A/P		40,000.00	A/P		40,000.00
REV		600,000.00	REV	0.00	0.00
OEX	220,000.00		OEX	0.00	0.00
A/R	40,800.00		A/R	40,800.00	
R.O		34,000.00	R.O	0.00	0.00
ACC		20,000.00	DPR	0.00	0.00
INV	56,000.00		ACC		40,000.00
R/E		72,100.00	PRE	3,300.00	
			INV	46,000.00	
			R/E		47,800.00
			ITL		0.00
Total:	1,440,900.00	1,440,900.00	Total:	762,600.00	762,600.00

Exhibit 2: Trial balances

Find below financial statements for RYNEVELD Ltd.:

Ryneveld Ltd.'s
STATEMENT of FINANCIAL POSITION
as at 31.12.20X7

A			C, L
<i>Non-current assets</i>	[ZAR]	<i>Equity</i>	[ZAR]
P, P, E	160,000.00	Share capital	500,000.00
Intangibles		Reserves	16,730.00
Financial assets		Retained earnings	21,510.00
<i>Current assets</i>		<i>Liabilities (liab.)</i>	
Inventory	46,000.00	Long-term liab. IBL	80,000.00
Acc. receivables A/R	40,800.00	Short-term liab. A/P	104,360.00
Prepaid expenses	3,300.00	Provisions	
Cash/Bank	472,500.00	Income tax liab.	0.00
Total assets	722,600.00	Total equity and liab.	722,600.00

Exhibit 3: Balance sheet

Ryneveld Ltd.'s
STATEMENT of PROFIT & LOSS
and OTHER COMPREHENSIVE INCOME
for the year ended 31.12.20X7

	[ZAR]
Revenue	600,000.00
	<u>600,000.00</u>
Materials	(336,000.00)
Depreciation	(20,000.00)
Other expenses	(258,700.00)
Earnings before int. & taxes (EBIT)	<u>(14,700.00)</u>
Interest	(9,600.00)
Earnings before taxes (EBT)	<u>(24,300.00)</u>
Income tax expenses	0.00
Deferred taxes	
Earnings after taxes (EAT)	<u>(24,300.00)</u>

Exhibit 4: Income statement

Ryneveld Ltd.'s
STATEMENT of CASH FLOWS
for the period ended 31.12.20X7

<i>Cash flow from operating activities</i>	[ZAR]	[ZAR]
Proceeds	720,000.00	
Payment for Rent	(39,000.00)	
Payment for operational expenses	(220,000.00)	
Expenditure tax	(49,900.00)	
Payment of suppliers	(150,000.00)	
Payment for materials	(432,000.00)	
Tax payments		
		(170,900.00)
<i>Cash flow from investing activities</i>		
		0.00
<i>Cash flow from financing activities</i>		
Payment for interest	(9,600.00)	
Pay-off	(40,000.00)	
		(49,600.00)
Total cash flow		(220,500.00)

Exhibit 5: Statement of cash flows

Ryneveld Ltd.'s
STATEMENT of CHANGES in EQUITY
as at 31.12.20X7

	Share capital	Reserves	Retained earnings	total
	[ZAR]	[ZAR]	[ZAR]	[ZAR]
as at 1.01.20X6				0.00
Share issue	500,000.00			500,000.00
Profit 20X6			72,100.00	72,100.00
Dividend 20X0				0.00
Additions to reserves				0.00
as at 31.12.20X6	500,000.00	0.00	72,100.00	572,100.00
Profit 20X7			(24,300.00)	(24,300.00)
Dividend 20X7			(9,560.00)	(9,560.00)
Additions to reserves		16,730.00	(16,730.00)	0.00
as at 31.12.20X7	500,000.00	16,730.00	21,510.00	538,240.00

Exhibit 6: Statement of changes in equity