

**Task IM-4.40: Preparing Financial Statements**

RYNEVELD Ltd. discloses the balance sheet at the end of the Accounting period 20X7 as below:

Ryneveld Ltd. 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
<b>Total assets</b>	<b>722,600.00</b>	<b>Total equity and liab.</b>	<b>722,600.00</b>

**Figure 1:** Balance sheet 20X7

The balance sheet's item short-term liabilities contains VAT liabilities to the extent of 54,800.00 ZAR. Furthermore, the item includes dividends to be paid to shareholders of 9,560.00 ZAR. There are short-term liabilities resulting from a bank loan which are 40,000.00 ZAR. The item long-term liabilities shows the bank loan's long-term portion of 80,000.00 ZAR. The bank loan's rate of interest is 6%/a.

The inventories are office paper completely. The receivables result from a returns outwards and is a voucher from Ryneveld Ltd.'s supplier. Prepaid expenses are for January-20X8's rent.

Ryneveld Ltd. discloses the register of non-current assets as depicted below:

Ryneveld Ltd. REGISTER of NON-CURRENT ASSETS as at 31.12.20X7				
Asset	P, P, E @ cost / @ valuation	Acc. depr.	Acc. impairment loss	Carrying amount
Store Equipment	200,000.00	(40,000.00)		160,000.00
				0.00
				0.00
<b>Total</b>				<b>160,000.00</b>

**Figure 2:** Ryneveld Ltd.'s register of non-current assets

The below business transactions take place in 20X8; you are to record them in T-accounts and prepare a trial balance and an adjusted trial balance as well as financial statements (balance sheet, income statement, statement of cash flows and statement of changes in equity).

Start by transferring the figures from the balance sheet to your accounts. Thereafter, record the business transactions below:

- (a) Transfer VAT liabilities from the Accounts Payables A/P account to the Value Added Tax VAT account.
- (b) Payment of VAT liabilities to the revenue service.
- (c) Payment of dividends to shareholders.
- (d) Reclassification of rent (from prepaid expenses to the Rent-20X8 account).
- (e) Payment of monthly rent one month in advance 3,300.00 ZAR/m.
- (f) Purchase of paper for 3X0,000.00 ZAR (net amount). Ryneveld uses the voucher as partial payment. [X is the 5th digit of your matriculation number.]
- (g) Payment of interest to the bank.
- (h) Repair of the store equipment for 12,000.00 ZAR net amount. VAT to a VAT-rate of 20% applies.
- (i) Recording operational expenses of 15,000.00 ZAR/m. On 1.10.20X8, operational expenses increase by 15 %/m. Maintain the higher operational expenses for November and December. Operational expenses are not subjected to VAT.
- (j) The revenue is amounting to 700,000.00 ZAR. You must consider VAT.

Record the adjustments:

- (k) Record depreciation 20,000.00 ZAR
- (l) Record pay-off of the bank loan.
- (m) Reclassify next year's pay-off to short-term liabilities.
- (n) Accrue the Januar 20X9's rent to prepaid expenses.

At the end of the Accounting period 20X8, 45 % of the available materials (opening value and purchase) are still on stock. Calculate and record the gross profit and the earnings after taxes.

- (o) RYNEVELD Ltd. declares a dividend of 35 % of the distributable amount to be paid in June 20X9 to its shareholders.

### **Solution (X=7)**

Find below the accounts and financial statements for the parameter X = 7:

D <b>Property, plant, equipment PPE</b> C		D <b>Accumulated depreciation ACC</b> C		D <b>Inventories INV</b> C	
OV	200,000.00		OV	40,000.00	
		c/d	60,000.00	DPR	20,000.00
			60,000.00		60,000.00
			b/d	60,000.00	
D <b>Accounts receivables A/R</b> C		D <b>Prepaid expenses PRE</b> C		D <b>Cash/Bank C/B</b> C	
OV	40,800.00	(f)	40,800.00	OV	472,500.00
				(j)	840,000.00
		OV	3,300.00	(b)	54,800.00
		RNT	3,300.00	(c)	9,560.00
		c/d	6,600.00	(e)	39,600.00
			6,600.00	(f)	403,200.00
		b/d	3,300.00	(g)	7,200.00
				(h)	14,400.00
				(i)	186,750.00
				c/d	596,990.00
				1,312,500.00	1,312,500.00
				b/d	596,990.00
				A/P	40,000.00
				c/d	556,990.00
				596,990.00	596,990.00
				b/d	556,990.00
D <b>Issued capital ISS</b> C		D <b>Reserves RES</b> C		D <b>Retained earnings R/E</b> C	
c/d	500,000.00	OV	500,000.00	OV	21,510.00
		b/d	500,000.00	P8L	143,955.00
				c/d	165,465.00
				165,465.00	165,465.00
				S4D	57,912.75
				c/d	107,552.25
				165,465.00	165,465.00
				b/d	107,552.25
D <b>Interest bearing liabilities IBL</b> C		D <b>Accounts payables A/P</b> C		D <b>Income tax liabilities ITL</b> C	
A/P	40,000.00	OV	80,000.00	OV	0.00
c/d	40,000.00	(a)	54,800.00	P8L	61,695.00
	80,000.00	(c)	9,560.00	c/d	61,695.00
		c/d	40,000.00	61,695.00	61,695.00
			104,360.00	b/d	61,695.00
			104,360.00		
		C/B	40,000.00		
		b/d	40,000.00		
		c/d	40,000.00		
		IBL	40,000.00		
			80,000.00		
		b/d	40,000.00		
D <b>Value added tax VAT</b> C		D <b>Rent-20X8 RNT</b> C		D <b>Purchases-20X8 PUR</b> C	
(b)	54,800.00	(a)	54,800.00	(f)	370,000.00
(f)	74,000.00	(j)	140,000.00	T/A	370,000.00
(h)	2,400.00	(d)	3,300.00		
c/d	63,600.00	(e)	39,600.00		
	194,800.00	c/d	42,900.00		
			42,900.00		
		b/d	42,900.00		
			42,900.00		
			42,900.00		
		b/d	39,600.00		
D <b>Interest-20X8 INT</b> C		D <b>Repair-20X8 REP</b> C		D <b>Operational expenses-20X8 OEX</b> C	
(g)	7,200.00	(h)	12,000.00	(i)	186,750.00
		P8L	12,000.00	P8L	186,750.00

Figure 3: Accounts

D	<b>Revenue-20X8 REV</b>		C	D	<b>Trading Account-20X8 T/A</b>		C	D	<b>Depreciation-20X8 DPR</b>		C
T/A	700,000.00	(j)	700,000.00	PUR	370,000.00	REV	700,000.00	ACC	20,000.00	P8L	20,000.00
				INV	46,000.00		INV	187,200.00			
				GP	471,200.00						
					887,200.00		887,200.00				
				P8L	471,200.00	b/d	471,200.00				

  

D	<b>Shareholders for Dividends \$4D</b>		C	D	<b>Profit and Loss-20X8 P8L</b>		C
c/d	57,912.75	R/E	57,912.75	DPR	20,000.00	T/A	471,200.00
		b/d	57,912.75	RNT	39,600.00		
				OEX	186,750.00		
				INT	7,200.00		
				REP	12,000.00		
				EBT	205,650.00		
					471,200.00		471,200.00
				ITL	61,695.00	b/d	205,650.00
				R/E	143,955.00		

Ryneveld Ltd. TRIAL BALANCE as at 31.12.20X8			Ryneveld Ltd. ADJUSTED TRIAL BALANCE as at 31.12.20X8		
Account	Debit entries	Credit entries	Account	Debit entries	Credit entries
PPE	200,000.00		PPE	200,000.00	
ACC		40,000.00	ACC		60,000.00
INV	46,000.00		INV	187,200.00	
A/R	0.00		A/R	0.00	
PRE	0.00		PRE	3,300.00	
C/B	596,990.00		C/B	556,990.00	
ISS		500,000.00	ISS		500,000.00
RES		16,730.00	RES		16,730.00
R/E		21,510.00	R/E		107,552.25
IBL		80,000.00	IBL		40,000.00
A/P		40,000.00	A/P		40,000.00
ITL		0.00	ITL		61,695.00
VAT		63,600.00	VAT		63,600.00
RNT-20X8	42,900.00		RNT-20X8	0.00	0.00
PUR-20X8	370,000.00		PUR-20X8	0.00	0.00
INT-20X8	7,200.00		INT-20X8	0.00	0.00
REP-20X8	12,000.00		REP-20X8	0.00	0.00
OEX-20X8	186,750.00		OEX-20X8	0.00	0.00
REV-20X8		700,000.00	REV-20X8	0.00	0.00
			S4D		57,912.75
Total:	1,461,840.00	1,461,840.00	Total:	947,490.00	947,490.00

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**Ryneveld Ltd.**  
**STATEMENT of FINANCIAL POSITION**  
**as at 31.12.20X8**

A					C, L
<i>Non-current assets</i>		[ZAR]		<i>Equity</i>	[ZAR]
P, P, E		140,000.00		Share capital	500,000.00
Intangibles				Reserves	16,730.00
Financial assets				Retained earnings	107,552.25
<i>Current assets</i>				<i>Liabilities (liab.)</i>	
Inventory		187,200.00		Long-term liab. IBL	40,000.00
Acc. receivables A/R		0.00		Short-term liab. A/P	161,512.75
Prepaid expenses		3,300.00		Provisions	
Cash/Bank		556,990.00		Income tax liab.	61,695.00
<b>Total assets</b>		887,490.00		<b>Total equity and liab.</b>	887,490.00

Figure 5: Balance sheet

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**Ryneveld Ltd.**  
**STATEMENT of PROFIT & LOSS**  
**and OTHER COMPREHENSIVE INCOME**  
**for the year ended 31.12.20X8**

	[ZAR]
Revenue	700,000.00
	<hr/>
	700,000.00
<b>Materials</b>	(228,800.00)
Labour	
Depreciation	(20,000.00)
Other expenses	(238,350.00)
<b>Earnings before int. &amp; taxes (EBIT)</b>	212,850.00
Interest	(7,200.00)
<b>Earnings before taxes (EBT)</b>	205,650.00
Income tax expenses	(61,695.00)
Deferred taxes	
<b>Earnings after taxes (EAT)</b>	143,955.00

Figure 6: Income statement

Ryneveld Ltd.			
STATEMENT of CASH FLOWS			
for the period ended 31.12.20X8			
<i>Cash flow from operating activities</i>	[ZAR]		[ZAR]
Proceeds	840,000.00		
VAT payment	(54,800.00)		
Rent payment	(39,600.00)		
Payment for purchase	(403,200.00)		
Payment for repair	(14,400.00)		
Payment for operational expenses	(186,750.00)		
...			
			141,250.00
<i>Cash flow from investing activities</i>			
Investments	0.00		
			0.00
<i>Cash flow from financing activities</i>			
Payment for interest	(7,200.00)		
Payment for pay-off	(40,000.00)		
Dividend payment	(9,560.00)		
			(56,760.00)
<b>Total cash flow</b>			<b>84,490.00</b>

Figure 7: Statement of cash flows

Ryneveld Ltd.				
STATEMENT of CHANGES in EQUITY				
as at 31.12.20X8				
	Share capital	Reserves	Retained earnings	total
	[ZAR]	[ZAR]	[ZAR]	[ZAR]
as at 1.01.20X8	500,000.00	16,730.00	21,510.00	538,240.00
				0.00
Profit 20X8			143,955.00	143,955.00
Dividend declared			(57,912.75)	(57,912.75)
				0.00
as at 31.12.20X8	500,000.00	16,730.00	107,552.25	624,282.25

Figure 8: Statement of changes in equity

<b>Ryneveld Ltd.</b> <b>REGISTER of NON-CURRENT ASSETS</b> <b>as at 31.12.20X8</b>				
<b>Asset</b>	<b>P, P, E @ cost / @ valuation</b>	<b>Acc. depr.</b>	<b>Acc. impairment loss</b>	<b>Carrying amount</b>
Equipment	200,000.00	(60,000.00)		140,000.00
				0.00
				0.00
<b>Total</b>				<b>140,000.00</b>

**Figure 9:** Register of non-current assets