

COMPANIES

01 AUGUST 2013

Lesson Description

In this lesson we:

- Focus on Year-end adjustments as well as calculations and disclosure in the Financial Statements.

Questions

Question 1

You are provided with an extract of the pre-adjustment trial balance, adjustments and additional information of JAY Ltd, on 29 February 2008. The business buys and sells office equipment. Stock is sold at a mark-up of 60% on cost.

Instructions

- 1.1 Prepare the following **notes** to the Balance Sheet:
- | | |
|------------------------------|-----|
| a.) Inventory | (5) |
| b.) Retained Income | (5) |
| c.) Trade and other Payables | (8) |
- 1.2 Prepare the **Income Statement** for the year ended 29 February 2008 (62)

Information

RK LTD EXTRACT OF PRE-ADJUSTMENT TRIAL BALANCE ON 29 FEBRUARY 2008

Ordinary share capital (par value R2 each)	850 000
Ordinary Share Premium	41 200
Retained Income	52 500
Loan: XYZ Bank	110 000
Vehicles	162 000
Equipment	60 000
Accumulated depreciation on vehicles	51 200
Accumulated depreciation on equipment	38 000
Trading Stock	81 300
Debtors control	78 100
Provision for bad debts	4 100
Sars (income tax) (provisional payments)	63 420
Bank (DR)	35 539
Creditors control	6 350
Pension Fund	590
SARS (PAYE)	340
Sales	797 500
Cost of sales	335 900
Debtors allowance	8 000
Salary and wages	180 000
Pension fund contribution	13 700
Medical aid contribution	13 111
Sundry expenses	620
Packing materials	5 600
Rent income	22 000
Audit fees	8 000

Directors fees	18 000
Ordinary share dividend	12 000
Insurance	11 040
Bad debts	1 350
Interest on current account	400
Stationery	4 200
Interest on loan	10 350

Adjustment and Additional Information

- No entry has been made for stock returned by a debtor on 25 February 2008, selling price R1 400.
- A fire in one of the stock rooms caused R2 000 worth of damage to stock during February 2008. The insurance company has agreed to pay 75% of the loss in March 2008. The bookkeeper did not know how to record this transaction therefore no entries have been made in the books of the business.
- A physical stock count on 29 February 2008 revealed the following stock on hand:

Trading stock	R78 500
Stationery	R420
- Packing materials used during the current financial year amounted to R4 000.
- The bookkeeper posted the salaries journal to the General ledger on the 29 February 2008. However, she forgot to take into account that a 10% increase had been granted to S.Sithole as from 1 February 2008. The following details are applicable:
 - S.Sithole earned a gross monthly salary of R9 000 on 31 January 2008.
 - 8% of his gross monthly salary is deducted for the pension fund.
 - PAYE amounts to 20% of his gross salary.
 - His increase won't affect his medical aid contributions.
 - The business contributes R1,50 for every R1 contributed by its employees to the Pension Fund.
- A debtor whose account was written off as irrecoverable during December 2007, paid his outstanding debt of R750. No entry has been made.
- A debtor owing R500 was declared insolvent. The business received 25c in the rand, which was recorded. No entry however was made for the bad debt.
- Provision for bad debts must be decreased by R200.
- Depreciation is calculated as follows:
 - Equipment 10% on carrying value
 - Vehicles 20% p.a. on cost (continued.....pto)
 - Note: A vehicle with a cost price of R40 000 was sold to one of the directors on 1 January 2008 for R22 000 cash. The accumulated depreciation of the vehicle on 1 March 2007 was R24 000.
No entry has been made for the above.
- Included in insurance is an amount of R2 400 paid for the period 1 January 2008 to 30 June 2008.

11. Rent has been received for 11 months only.
12. R10 000 of the loan from XYZ Bank was repaid on 31 March 2007 and was properly recorded. Interest on the loan is calculated at 18% p.a.
13. Income Tax for the year amounts to R69 608.
14. A final dividend of 8c per share was declared on 29 February 2008.