

FINANCIAL STATEMENTS: INCOME STATEMENT & ASSET DISPOSAL

08 AUGUST 2013

Lesson Description

In this lesson we:

- Focus on income statement adjustments and calculating profit/loss on sale of asset.

Questions

Question 1

Simphiwe Limited

You are provided with the Pre-Adjustment Trial Balance of Simphiwe Limited. The company buys and sells uniforms and they also repair uniforms for their customers, for which they charge a fee. These fees are credited to the Fee Income Account in the General Ledger.

Required

- 1.1 Refer to Information 2J below.
Calculate the profit or loss on disposal of the computer. Show workings.
You may prepare an Asset Disposal Account to identify the figure. (8)
- 1.2 Complete the Income Statement for the year ended 30 September 2009.
The notes to the financial Statement are NOT required (47)

Information

SIMPHIWE LTD

PRE-ADJUSTMENT TRIAL BALANCE AS AT 30 SEPTEMBER 2009

	DEBIT	CREDIT
Balance Sheet Accounts Section	R	R
Ordinary share capital		1 300 000
Share premium		170 730
Retained income (1 October 2008)		170 000
Loan from Stay Bank		90 000
Land and buildings at cost	1 628 520	
Vehicles at cost	220 000	
Equipment at cost	190 000	
Accumulated depreciation on vehicles (1 October 2008)		41 000
Accumulated depreciation on equipment (1 October 2008)		37 000
Debtors' control	36 600	
Creditors' control		17 960
Trading stock	479 000	
Bank		13 500
Petty cash	2 200	
SARS – Income tax	83 500	
Provision for bad debts		1 440

Nominal Accounts Section	R	R
Sales		2 720 000
Cost of sales	1 310 000	
Debtors' allowances	6 200	
Salaries and wages	162 000	
Discount allowed	905	
Fee income		104 750
Rent income		56 000
Insurance	11 000	
Sundry expenses	39 250	
Directors' fees	390 000	
Audit fees	53 705	
Consumable stores	24 000	
Interest income		2 500
Ordinary share dividends	88 000	

Adjustments

- Prepaid expenses in respect of sundry expenses at the year- end, R3 200, have not been taken into account.
- On 30 September 2009, R580 was received from A Ethic, whose account had previously been written off as irrecoverable. The amount was entered in the Debtors' Control column in the Cash Journal.
- The provision for bad debts must be adjusted to R1 830.
- There were two directors at the start of the accounting period. Directors' fees have been paid for the first half of the accounting period. On 1 April 2009, a third director was appointed. All three directors earn the same monthly fee. Provide for the outstanding fees owed to the directors.
- Rent has been received for 14 months.
- The following credit note was left out of the Debtors' Allowances Journal for September in error. The mark-up on goods sold was 50% on cost.

SIMPHIWE LTD		CREDIT NOTE 4533	
<i>Credit:</i> Supaclean Ltd PO Box 340, Westmead, 3610		28 Sept. 2009	
		Unit price	Total
24	Uniforms returned	R400	R9 600
	Reduction on fee charged for repair of uniforms		R 750
			<u>R10 350</u>

- A physical stock count on 30 September 2009 reflected the stock of uniforms on hand as R490 000.

H. The loan statement from Stay Bank reflected the following:

Balance at beginning of financial year	R 150 000
Repayments during the year	R 78 000
Interest capitalised	R ?
Balance at end of financial year	R 90 000

I. Depreciation on vehicles is calculated at 20% p.a. on the diminishing-balance method.

J. Depreciation on equipment is calculated at 10% p.a. on the cost price. Note that an item of equipment was taken over by one of the directors, Ivor Steele, on 30 June 2009 for personal use for R800 cash. The relevant page from the Fixed Asset Register is provided below. No entries have been made in respect of the disposal of this asset.

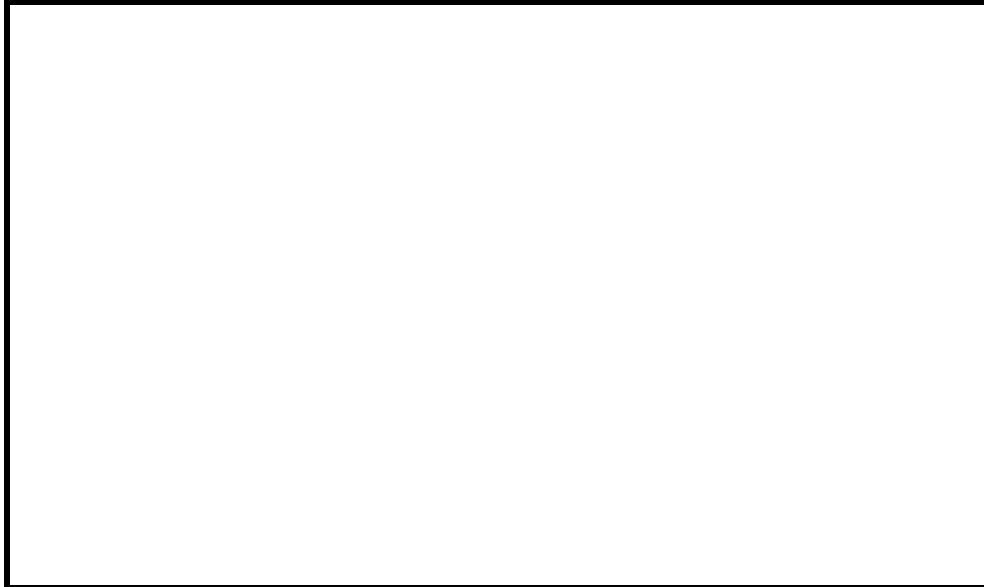
FIXED ASSET REGISTER			Page 12
Item: VYE Computer		Ledger Account: Equipment	
Date Purchased: 1 April 2006		Cost Price: R22 000	
Depreciation Policy: 10% p.a. on cost price			
Date	Depreciation calculations	Current Depreciation	Accumulated Depreciation
2006 30 September	$R22\ 000 \times 10\% \times 6/12$	R1 100	R1 100
2007 30 September	$R22\ 000 \times 10\% \times 12/12$	R2 200	R3 300
2008 30 September	$R22\ 000 \times 10\% \times 12/12$	R2 200	R5 500
2009 30 June	?	R ?	R ?

K. Income tax for the year amounts to R63 280.

Answer Book

Question 1

1.1 Calculate the profit or loss on disposal of the computer:



1.2 **SIMPHIWE LTD**
INCOME STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2009

Sales (2720 000 - 6200	
Cost of sales (1310 000	
Gross profit	
Other operating income	
Fee income (104 750	
Rent income (56 000	
Gross operating income	
Operating expenses	
Salaries and wages (162 000	
Discount allowed(905	
Insurance (11 000	
Sundry expenses (39 250	
Directors' fees (390 000	
Audit fees (53 705	
Consumable stores (24 000	
Operating profit	
Interest income (2 500	
Profit before interest expenses	
Interest expenses	
Profit before tax	
Income tax	
Net profit after tax	