

COMPANIES

SPECIFIC OUTCOMES

- Analyse and record all relevant transactions which relate to companies including the issue of ordinary shares, income tax, dividends and accumulated profit.
- Prepare the final ledger accounts of a company, given certain adjustments.
- Prepare the following detailed financial statements of a company:
 - Income statement
 - Balance sheet
 - Cash flow statement

GLOSSARY OF TERMS

Memorandum of association

The constitution of the company, setting out its name, main business, objectives, powers and details of authorised share capital.

Articles of association

The formal rules for the conduct and governance of the company. Defines rights of members (shareholders), and duties of directors.

Authorised share capital

The share capital detailed in the Memorandum of Association. The directors can then issue shares up to the limits imposed by the Memorandum.

Issued share capital

Share capital that has been issued by the directors either by means of a public offer or a private placing.

Par value shares

Shares that have a nominal value, e.g. R1 per share. Often issued at a premium, e.g. at R1,50. (Share capital = R1 and Share premium = 50c)

Ordinary shares

The main risk-bearing shares of a company and generally give the shareholders a vote at general meetings. Most shares listed on the stock exchange are ordinary shares.

Prospectus

In the case of a public company, a prospectus will be issued. This document invites the public to purchase shares in the company.

Dividends

The distribution of profits to the shareholders. Dividends are declared by the directors and shareholders have no rights to a distribution until declared by the directors. Generally most companies declare and pay two dividends per year: an interim paid approximately half-way through the year, and a final dividend paid just after the financial year end once the profits have been determined.

Legal entity

An entity that is recognised as having a separate legal existence.

Limited liability

Applies to the shareholders of a company. Their liability ceases once they have paid fully for their shares. Creditors of a company cannot look to shareholders for settlement of debts.

Board of directors

The "governing body" of the company. Directors are appointed by the shareholders in general meeting.

INTRODUCTION

A company is a form of business enterprise which is created by an association of persons with a common profit motive. A company is a separate legal entity with its own legal personality which is incorporated in terms of the Companies Act No. 61 of 1973 (as amended). In these notes, references to **company** refer to a limited liability company registered in terms of the Companies Act.

WHAT IS A LIMITED LIABILITY COMPANY?

Basic form and nature

A company is a separate legal entity, owned by its shareholders and governed by its board of directors. It may enter into legal contracts and business undertakings with third parties, the contracts being signed on behalf of the company by the board of directors. A company is also a separate taxpayer, paying tax at a rate designated for companies. It has indefinite life and does not change its forms or legal status with changes in shareholders or directors. The shareholders enjoy limited liability and cannot be held liable for the debts of the company once they have paid for their shares. The directors are required to appoint an independent auditor to audit and report to the shareholders on the company's annual financial statements. They are also required to:

- File annual returns with the registrar of companies.

- Hold an annual general meeting of shareholders.

- Hold extraordinary general meetings of shareholders to pass special resolutions; e.g. to change the authorised share capital.

PRIVATE AND PUBLIC COMPANIES

Public companies are generally large companies with many shareholders and in most cases, a listing on the stock exchange. The main differences between private companies is summarised in the table below:

	PRIVATE COMPANY	PUBLIC COMPANY
No. of shareholders: Min Max	1 50	7 No limit
No. of directors: Min Max	1 -	2 -
Public subscription	Prohibited	Allowed
Transfer of shares	Offered to existing shareholders first, then outsiders with consent of existing shareholders.	No limitations
Stock Exchange listing	Prohibited	Allowed, but not mandatory.
Name	(e.g.) ABC (Pty) Ltd	(e.g.) XYZ Ltd

You will notice that a private company has the words **(Pty) Ltd** tacked to its name. This means **Proprietary Limited** and alerts creditors and other doing business with the company that it is a private company. The word **Limited** on the name indicates that the business is a limited liability company and is registered with the Registrar of Companies.

GENERAL LEDGER ACCOUNTS

LEDGER ACCOUNTS PECULIAR TO COMPANIES

- 1. Ordinary share capital
- 2. Share premium
- 3. Accumulated profit
- 4. SARS (income tax)
- 5. Shareholders for dividends
- 6. Income tax
- 7. Ordinary share dividends
- 8. Appropriation account

FORMATS

1. - E +

Dr.	Ordinary share capital	Bx	Cr
	20.1		
	Jan 1 Balance	(1)	b/d xx
	Nov 30 Bank	(2)	CRJ xx
		(3)	xxx

Explanations of the above

- (1) This represents the balance of the issued share capital of the company at the beginning of the financial year - shares sold at par-value.
- (2) This represents the additional shares issued to the public at par-value.
- (3) This represents the balance of the share capital at the end of the financial year.

Remember!! Issued shares can only be entered at par-value. (e.g. R2 per issued share)

2.

		- E +					
Dr		Share premium		Bx		Cr	
				20.1			
				Nov 30	Bank (1)	CRJ	xx

Explanation of the above

- (1) This represents the shares issued to the public at a premium. This arises when the issue price of the shares exceeds their par-value. (e.g. shares with a par-value of R2 each issued at R2,50, therefore R2 per share will be transferred to the ordinary share capital account and the remaining 50c per share will be entered in the share premium account.

3.

		- E +					
Dr		Accumulated profit		Bx		Cr	
20.1				20.1			
Dec 31	Appropriation (2)	GJ	xx	Jan 1	Balance (1)	b/d	xx
Dec 31	Balance	c/d	xx	Dec 31	Appropriation (3)	GJ	xx
			xxx				xxx
				20.3			
				Jan 1	Balance	b/d	xx

Explanations of the above

- (1) This represents that part of the profit which was not appropriated in the form of dividends the previous financial year. The amount not appropriated is termed accumulated profit.
- (2) This represents the accumulated profit, at the beginning of the accounting period, transferred to the appropriation account.
- (3) This represents the profit accumulated by the company at the end of the current accounting period. The accumulated profit for the year will be the net profit for the year less the income tax and ordinary dividends. The accumulated profit at the end of the accounting period represents the current years accumulated amount plus the accumulated profit at the beginning of the financial period.

4.

- L +

Dr				South African Revenue Services (SARS): Income tax				Bx	Cr
20.1					20.1				
Jan 31	Bank	(2)	CPJ	xx	Jan 1	Balance	(1)	b/d xx	
June 30	Bank	(3)	CPJ	xx	Dec 31	Income tax	(5)	GJ xx	
Dec 30	Bank	(4)	CPJ	xx					
Dec 31	Balance	(6)	c/d	xx					
				xxx				xxx	
					20.2				
					Jan 1	Balance	(6)	b/d xx	

Explanations of the above

- (1) This represents the amount owing to SARS at the beginning of the financial year.
- (2) This represents the payment to SARS of the amount owing at the beginning of the financial year. This payment is made after the tax assessment is received and it brings the balance in the account to zero.
- (3) This represents the first provisional tax payment made to SARS. This amount is based on ± half of the estimated profits for the current year and is made six months after the beginning of the accounting period.
- (4) This represents the second provisional tax payment made to SARS at the end of the accounting period.
- (5) This represents the company's liability for the full amount of income tax based on its profits at the end of the accounting period.
- (6) The credit balance represents the amount owing **to** SARS in respect of the under-payment of income tax.

Please Note!! A debit balance represents the amount owing **by** SARS in respect of an over-payment of income tax.

5.

- L +

Dr		Shareholders for dividends				Bx		Cr
20.1					20.1			
Jan 31	Bank (2)	CPJ	xx	Jan 1	Balance (1)	b/d	xx	
June 30	Bank (4)	CPJ	xx	June 10	Ordinary share dividends			
					(interim) (3)	GJ	xx	
				Dec 30	Ordinary share dividends			
Dec 31	Balance (6)	c/d	xx		(final) (5)	GJ	xx	
			xxx				xxx	
				20.2				
				Jan 1	Balance (6)	b/d	xx	

Explanations of the above

- (1) This represents the amount owing to the shareholders. (Final dividend declared at the end of the previous accounting period).
- (2) This represents the payment to the shareholders of the amount owing at the beginning of the financial year and brings the balance in the account to zero.
- (3) This represents the interim dividend declared to the shareholders during the accounting period.
- (4) This represents the payment of the interim dividend owing to the shareholders. This brings the balance in the account to zero.
- (5) This represents the final dividend declared to the shareholders at the end of the accounting period. *Note: A final dividend can only be declared once the interim dividend has been paid.*
- (6) This represents the amount owing to the shareholders at the end of the financial year for the final dividend declared but not yet paid.

6.		- E +							
Dr		Income tax				Nx		Cr	
20.1					20.1				
Dec 31	SARS (Income Tax) (1)	GJ	xx		Dec 31	Appropriation (2)	GJ	xx	

Explanations of the above

- (1) This represents the company's liability for tax based on its profits and any allowances which the tax legislation permits.
- (2) This represents the closing transfer of the calculated income tax at the end of the financial year.

7.		- E +							
Dr		Ordinary share dividends				Nx		Cr	
20.1					20.1				
Dec 31	Shareholders for				Dec 31	Appropriation (3)	GJ	xxx	
	dividends (1)	GJ	xx						
	Shareholders for								
	dividends (2)	GJ	xx						
			xxx					xxx	

Explanations of the above

- (1) This represents the actual (interim) dividend declared during the year.
- (2) This represents the final dividend declared at year-end that have not been paid.
- (3) This represents the dividends for the year (interim and final) transferred to the appropriation account.

8.

- E +

Dr				Appropriation account				Cr			
20.1				20.1							
Dec 31	Income tax (2)		GJ xx	Dec 31	Profit and loss (1)		GJ xx				
	Ordinary share				(Net profit)						
	dividends (3)		GJ xx		Accumulated profit (4)		GJ xx				
	Accumulated profit (5)		GJ xx		(beginning)						
	(end)										
			xxx							xxx	

Explanations of the above

- (1) This represents the net profit before tax for the year.
- (2) This represents the income tax charged for the year.
- (3) This represents the interim and final dividends for the year.
- (4) This represents the accumulated profit at the beginning of the year.
- (5) This represents the accumulated profit at the end of the year.

ACTIVITY 1

REQUIRED

- 1.1 From the information supplied below in respect of Presley Limited you are required to prepare the following General Ledger accounts for the period 1 March 20.1 to 28 February 20.2, the end of the financial year:

Ordinary share capital
Share premium
Accumulated profit
SARS - Income tax
Shareholders for dividends
Income tax
Ordinary share dividends
Appropriation account

- 1.2 Calculate the capital and reserves of ordinary shareholders on 28 February 20.2.

INFORMATION

Presley Ltd is registered with an authorised share capital of R1 200 000 consisting of 600 000 ordinary shares of R2 each. The company offered 200 000 of the shares to the public for subscription on 2 January 20.1. The closing date for the applications was 1 March 20.1.

TRANSACTIONS

20.1

March 1 Received applications for 200 000 shares together with the amount payable. All the shares were allotted.

July 31 Presley Ltd offered a further 50 000 shares to the public for application at R2,75 per share and set 30 September 20.1 as the closing date for applications.

Aug 29 After six months of trading in the first financial year, the accountant calculated that the company had to pay R30 500 provisional income tax to SARS. Issued a cheque for the amount due.

Aug 31 The directors of Presley Ltd declared and paid an interim dividend of 10 cents per share on all shares issued up to date.

Sept 30 Received applications, together with amount payable, for 50 000 shares. All the shares were allotted.

20.2

Feb 20 The accountant estimated the company's profit for the year and calculated that a second provisional tax payment of R22 000 was due. Issue a cheque in favour of SARS for the amount due.

Feb 28 The final ledger accounts are prepared and show a net profit of R120 000.

The directors decided to recommend a final dividend of 5% on the par-value of all the shares issued to date.

Provide for income tax at the rate of 40% of net profit plus 15% of dividends.

ACTIVITY 1

ANSWER SHEET

1.1 GENERAL LEDGER OF PRESLEY LTD.

Balance sheet accounts section

Dr				Ordinary share capital				Cr
				20.1				
				March 1	Bank		CRJ	
				Sept 30	Bank		CRJ	

Dr				Share premium				Cr
				20.1				
				Sept 30	Bank		CRJ	

Dr				Accumulated profit				Cr
				20.2				
				Feb 28	Appropriation		GJ	

Dr _____ **SARS - Income tax** _____ Cr

20.1				20.2			
Aug 29	Bank		CPJ	Feb 28	Income tax		GJ
20.2							
Feb 20	Bank		CPJ				
Feb 28	Balance		c/d				
				March 1	Balance		b/d

Dr Shareholders for dividends Cr

20.1				20.1			
Aug 31	Bank		CPJ	Aug 31	Ordinary share dividends		GJ
Feb 28	Balance		c/d		(interim)		
				Feb 28	Ordinary share dividends		GJ
					(final)		
				March 1	Balance		b/d

Nominal accounts section

Dr Income tax Cr

20.2				20.2			
Feb 28	SARS (Income tax)		GJ	Feb 28	Appropriation		GJ

Dr Ordinary share dividends Cr

20.1				20.2			
Aug 31	Shareholders for dividends		GJ	Feb 28	Appropriation		GJ
	(interim)						
Feb 28	Shareholders for dividends		GJ				
	(final)						

Dr				Appropriation account				Cr	
20.2				20.2					
Feb 28	Income tax		GJ	Feb 28	Profit and loss		GJ		
	Ordinary share dividends		GJ		(Net profit)				
	(interim + final)				Accumulated profit		GJ		-
	Accumulated profit		GJ		(beginning)				
	(end)								

1.2

CAPITAL AND RESERVES ON 28 FEBRUARY 20.2	
	R
Ordinary share capital	
Share premium	
Accumulated profit	
(also known as shareholders equity)	

FINANCIAL STATEMENTS

The Companies Act plays an important role in the protection of the rights of shareholders, consequently the Act also has a significant influence in the preparation of a company's financial statements. The Act effectively stipulated that the financial statements shall be prepared accordance with GAAP (General Accepted Accounting Practice). It also stipulates certain minimum information which must be displayed in a set of financial statements. The directors of a company are responsible for the issuing of the financial statements.

THE FINANCIAL STATEMENTS OF A COMPANY CONSIST OF

1. Income statement
2. Balance sheet
3. Cash flow statement
4. Directors' report
5. Auditor's report

In our studies we will concentrate in the preparation of the detailed **income statement**, **balance sheet** and **cash flow statement** of a company which will be used mainly by the management of a company.

The **income statement** shows the *net* result of business activities for a specific period (usually a year, known as the financial year).

The **balance sheet** shows the financial position of an entity on a specific date (the last day of the financial year, or financial year end).

INCOME STATEMENT

FORMAT

XYZ LTD			
INCOME STATEMENT FOR THE YEAR ENDED			
	Note	R	R
Sales			xxx
Cost of sales			(xx)
Gross profit			xxx
Other operating income			xxx
(example) Rent income		xx	
Profit on sale of asset		xx	
*Provision for bad debts adjustment (decrease)		xx	
Bad debts recovered		xx	
Gross operating income			xxx
Operating expenses			(xx)
(example) Rent expense		xx	
Loss on sale of asset		xx	
*Provision for bad debts adjustment (increase)		xx	
Depreciation		xx	
Auditors fees		xx	
Directors fees		xx	
Loss on stock theft		xx	
Operating profit			xxx
Interest income	(1)		xx
Profit before financing cost (or interest expense)			xxx
Finance cost (interest expense)	(2)		(xx)
Profit before tax			xxx
Taxation			(xx)
Net profit for the period	(9)		xxx

BALANCE SHEET AND NOTES TO FINANCIAL STATEMENTS
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FORMATS

XYZ LTD			
BALANCE SHEET AT			
	Note	R	R
ASSETS			
Non-current assets			
			xxx
Tangible assets	(3)	xxx	
Financial assets			
Fixed deposits (maturation period more than 12 months)		xxx	
Current assets			
			xxx
Inventories	(4)	xxx	
Trade and other receivables	(5)	xxx	
Cash and cash equivalents	(6)	xxx	
Total assets			xxx
EQUITY AND LIABILITIES			
Capital and reserves			
			xxx
Equity capital	(7)	xxx	
Share premium	(8)	xxx	
Accumulated profit	(9)	xxx	
Non-current liabilities			
			xxx
Mortgage bond (not payable within 12 months)			xxx
Current liabilities			
			xxx
Trade and other payables	(10)	xxx	
Bank overdraft (if any)		xxx	
Short term loans		xxx	
Total equity and liabilities			xxx

XYZ LTD				
NOTES TO FINANCIAL STATEMENTS				
	R	R	R	R
1. Interest income				
from investments (e.g. fixed deposit)				xx
from overdue debtors				xx
from current accounts				xx
				xxx
2. Interest expense				
on mortgage bond				xx
on bank overdraft				xx
on overdue creditors				xx
				xxx
3. Tangible assets	Land and Buildings	Vehicles	Equipment	Total
Cost price	xxx	xxx	xxx	xxx
Accumulated depreciation	-	(xx)	(xx)	(xx)
Carrying value (last date of previous year)	xxx	xxx	xxx	xxx
Movements				
Additions at cost	xxx		xxx	xxx
Disposals at carrying value		(xxx)		(xxx)
Depreciation for the year		(xx)	(xx)	(xx)
Carrying value (closing date)	xxx	xxx	xxx	xxx
Cost price	xxx	xxx	xxx	xxx
Accumulated depreciation		(xx)	(xx)	(xx)
4. Inventories				
Trading stock				xxx
Consumable stores on hand (e.g. stationery on hand)				xxx
				xxx
5. Trade and other receivables				
Trade debtors				xxx
Provision for bad debts				(xx)
Net trade debtors				xxx
Accrued income (Income receivable)				xxx
Prepaid expenses				xxx
*SARS (income tax) (debit balance)				xxx
Insurance Company				xxx
Deposit: Water and electricity				xxx
				xxx

6.	Cash and cash equivalents	R	R
	Fixed deposit (maturing withing 12 months)		XXX
	Savings account		XXX
	Bank (favourable) (+ post dated cheques issued)		XXX
	Cash float		XXX
	Petty cash		XXX
			XXX
7.	Equity capital		
	Authorised		
	xxx ordinary shares of Rx each		XXX
	Issued		
	xxx ordinary shares at Rx each on (last date of previous year)		XXX
	xxx ordinary shares at Rx each issued during financial year		XXX
	xxx ordinary shares at Rx each on (closing date)		XXX
8.	Share premium		
	Balance at (last date of previous year)		XXX
	Share issue during the year: xxx shares at x cents premium		XXX
	Balance at (closing date)		XXX
9.	Accumulated profit		
	Accumulated profit on (last date of previous year)		XXX
	Net profit (Loss) for the year / period		XXX
	Ordinary dividends:		XXX
	Paid	XX	
	Recommended	XX	
	Accumulated profit (closing date)		XXX
10.	Trade and other payables		
	Trade creditors		XXX
	Accrued expenses (expenses payable)		XXX
	Income received in advance (deferred income)		XXX
	SARS:		XXX
	*Income tax (credit balance)	XX	
	PAYE	XX	
	Creditors for salaries		XXX
	Creditors for wages		XXX
	Medical fund		XXX
	Pension fund		XXX
	Unemployment Insurance Fund		XXX
	Deposit: Rent income		XXX
	Shareholders for dividends		XXX
			XXX

ACTIVITY 2

You are provided with the pre-adjustment trial balance of Bata Shoes Ltd at the end of their financial year. The company buys and sells a wide range of shoes, but also does repairs for its customers, for which it charges a fee. Unfortunately, their accountant fell ill recently and was not able to complete the financial statements. Your assistance is required.

INSTRUCTION

Use the Pre-Adjustment trial balance and list of adjustments, in order to complete the following:

- 2.1 The income statement for the year ended 31 October 20.1.
- 2.2 The balance sheet on 31 October 20.1

BATA SHOES LTD		
PRE-ADJUSTMENT TRIAL BALANCE ON 31 OCTOBER 20.1		
Balance sheet accounts section	R	R
Ordinary share capital (in shares of R10 per share)		64 000
Share premium		2 500
Accumulated profit		50 000
Loan from Dark Rock Bank (18% pa)		65 000
Equipment at cost	45 000	
Accumulated depreciation on equipment		19 000
Land and buildings	169 000	
Bank	19 650	
Cash float	800	
Medical aid fund		280
Pension fund		170
Debtors control	6 880	
Creditors control		20 420
SARS (PAYE)		1 400
SARS (income tax)	42 000	
Trading stock	39 540	
Nominal accounts section		
Sales		762 620
Cost of sales	510 000	
Fee income		32 400
Rent income		9 800
Salaries and wages	93 560	
Interest on loan	12 350	
Depreciation	300	
Asset disposal	2 800	
Directors fees	60 000	
Stationery	7 330	
Sundry expenses	9 420	
Ordinary share dividends	8 960	
	1 027 590	1 027 590

Adjustments

- On 1 January 20.1, 1 500 shares were issued at a premium of 50 cents per share. The proceeds of the issue of these shares were properly recorded.
- Offices has been let for R700 per month since 1 November 20.0.
- Provide for fees owed to the auditors, R3 554.
- The salaries journal for October 20.1 had not yet been posted to the general ledger. The totals were as follows:

Gross salary	Deductions			Contributions	
	PAYE	Medical aid	Pension fund	Medical aid	Pension fund
6 700	1 670	220	420	110	210

Due to the accountant's illness, cheques for the above have not yet been made out, but this will be attended to as soon as possible.

- According to the loan agreement with Dark Rock Bank, annual repayments of R20 000 must be made on or before 30 April. On 31 October 20.1 there was still interest outstanding on the loan.
- The asset disposal account has not yet been completed. The entries which have already been put through are:

Asset disposal					
20.1			20.1		
Aug 1	Equipment	4 000	Aug 1	Accumulated depreciation on equipment	1 200

These entries are in respect of a cash register which was sold on 1 August 20.1. The depreciation rate on equipment is 10% pa on cost. You are required to enter the selling price of R3 000, he supplied a post-dated cheque which falls due on 30 November 20.1. Complete the asset disposal account.

- Provide for depreciation on equipment at 10% pa on the straight-line method. New equipment, cost price R5 000, was bought on 30 April 20.1. The purchase transaction has already been entered in the books.
- Post-dated cheques totalling R2 500 on 31 October 20.1 were issued in favour of creditors.

9. A dissatisfied customer was issued with the following credit note:

BATA SHOES LIMITED		C/N 125
CR.	Me A Bako 35 Main Street Morgans Bay	
1 pair Ladies' running shoes returned		R260,00
50% reduction of fee charged (unsatisfactory repair of old shoes)		20,00
		R280,00

This credit note was erroneously omitted from the relevant journal. The original cost price of the shoes returned by Me Bako is R130.

10. Charge interest at 18% pa for two months on the overdue account of Adams, R700.
11. Create a provision for bad debts of R300 on outstanding debtors.
12. A physical stocktaking indicated that the total value of trading stock on hand amounted to R39 700, while stationery on hand amounted to R330.
13. No entry has as yet been made for the following which appeared in the bank statement for October 20.1:
 Debit column of bank statement: Service fees, R140
 Credit column of bank statement: Interest, R250
Note: Sundry expenses includes bank charges.
14. A final dividend of 80 cents per share has been recommended by the directors on all shares issued up to date.
15. Provide for income tax at 45% of net profit and 15% on dividends.

ACTIVITY 2**ANSWER SHEET**

BATA SHOES LTD			
INCOME STATEMENT FOR THE YEAR ENDED 31 OCTOBER 20.1			
	Notes	R	R
Sales			
Cost of sales			
Gross profit			
Other operating income			
Rent income			
Fee income			
Trading stock surplus			
Profit on sale of asset			
Gross operating income			
Operating expenses			
Auditors fees			
Salaries and wages			
Depreciation			
Stationery			
Provision for bad debts adjustment			
Directors fees			
Sundry expenses			
Operating profit			
Interest income	(1)		
Profit before finance cost	(2)		
Finance cost			
Profit before tax			
Taxation			
Net profit for the year	(9)		

BATA SHOES LTD			
BALANCE SHEET ON 31 OCTOBER 20.1			
	Note	R	R
ASSETS			
Non-current assets			
Tangible assets	(3)		
Financial assets			
Fixed deposit			
Current assets			
Inventories	(4)		
Trade and other receivables	(5)		
Cash and cash equivalents	(6)		
Total assets			
EQUITY AND LIABILITIES			
Capital and reserves			
Equity capital	(7)		
Share premium	(8)		
Accumulated profit	(9)		
Non-current liabilities			
Mortgage bond			
Current liabilities			
Trade and other payables	(10)		
Short term loan			
Total equity and liabilities			

BATA SHOES LTD			
NOTES TO FINANCIAL STATEMENTS			
		R	R
1. Interest income			
from overdue debtors			
from current accounts			

	R	R	R
2. Finance cost			
on mortgage bond			
3. Tangible assets	Land and Buildings	Equipment	Total
Cost price			
Accumulated depreciation			
Carrying value (31 October 20.0)			
Movements			
Additions at cost			
Disposals at carrying value			
Depreciation for the year			
Carrying value (31 October 20.1)			
Cost price			
Accumulated depreciation			
4. Inventories			
Trading stock			
Consumable stores on hand			
5. Trade and other receivables			
Trade debtors			
Provision for bad debts			
Net trade debtors			
6. Cash and cash equivalents			
Bank			
Cash float			
7. Equity capital			
Authorised			
50 000 ordinary shares at R10 each			500 000

	R	R
Issued		
..... ordinary shares at R... each on 31 October 20.0		
..... ordinary shares at R... each issued during financial year		
..... ordinary shares at R... each on 31 October 20.1		
8. Share premium		
Balance at 31 October 20.0		
Share issue during the year: shares at cents premium		
Balance at 31 October 20.1		
9. Accumulated profit		
Accumulated profit on 31 October 20.0		
Net profit for the year		
Ordinary dividends:		
Paid		
Recommended		
Accumulated profit on 31 October 20.1		
10. Trade and other payables		
Trade creditors		
Accrued expenses		
Income received in advance		
SARS:		
Income tax		
PAYE		
Creditors for salaries		
Medical fund		
Pension fund		
Shareholders for dividends		

ACTIVITY 3

The following information has been extracted from the books of Addo Ltd, trading with a registered share capital of 100 000 shares of R4 each.

Balances on 31 December	20.4	20.3
	R	R
Ordinary share capital	100 000	80 000
Accumulated profit	30 000	25 000
SARS (income tax)	1 000 (Dr)	2 000
Shareholders for dividends	12 000	10 000
Mortgage bond: Peoples Bank	30 000	40 000
Creditors	40 000	50 000
Bank	12 000 (Cr)	10 000 (Dr)

INSTRUCTION

- 3.1 The amount owed to shareholders represents a final dividend. Calculate the final dividend per share for 20.4.
- 3.2 The additional shares were issued on 1 October 20.4 and an interim dividend of 30 cents per share was paid on 15 July 20.4. What total amount was paid out in interim dividends?
- 3.3 The total amount of R20 000 was paid to SARS during 20.4. Calculate the income tax assessment for 20.4.
- 3.4 The decrease in the loan is the yearly repayment. Show the "Capital and reserves" as well as the "Non-current liabilities" section of the balance sheet.
- 3.5 Show the "Trade and other payables" as a note to the balance sheet.

ACTIVITY 3

ANSWER SHEET

3.1

Final dividend per share: $\frac{\text{dividend}}{\text{number of shares issued}}$

3.2

Total amount paid out as interim dividends:

3.3

SARS (income tax)			
Bank		Balance (beginning of year)	
(amount paid during 20.4)		Income tax	
Income tax assessment 20.4 =			

3.4

BALANCE SHEET ON 31 DESEMBER 20.4	R	R
Capital and reserves		
Equity capital		
Accumulated profit		
Non-current liabilities		
Mortgage bond		

3.5

NOTES TO FINANCIAL STATEMENTS	R
Trade and other payables	
Trade creditors	
Shareholders for dividends	
SARS (income tax)	
Please Note: Bank overdraft, R12 000 and Short term loan, R10 000 will be on face of balance sheet with trade and other payables. SARS (income tax), will be shown with with trade and other receivables - debit balance end of accounting period.	

CASH FLOW STATEMENT

A further analysis of the **income statement** and the **balance sheet** is required to determine, for example, why the cash balance has changed, what has happened to the net profit or why less cash is available in spite of a large net profit. To provide relevant information for the users of financial statements, a **cash flow statement** must be drawn up. The **cash flow statement** is intended to explain the manner in which the cash resources of a company have changed.

CONTENTS OF THE CASH FLOW STATEMENT

1. OPERATING ACTIVITIES

The cash flow from operating activities is normally the most important source of cash to a company and will provide the starting point for the statement. Cash generated by operating activities, comprises separate identification of:

- cash generated from operations
- cash effects of finance costs (interest) and taxation
- cash effects of dividends paid to shareholders

Two problem areas must be pointed out!

Depreciation does not involve an outflow of cash. There is no effect on the bank account.

Interest on loans is strictly speaking, not an "operating" activity. It is considered as a cost of "financing" the business.

2. INVESTING ACTIVITIES

Investing activities entail the buying and selling of tangible assets. The outflow of cash includes items such as the purchasing of tangible assets, whilst the inflow of cash items includes items such as the proceeds from the sale of non-current assets.

3. FINANCING ACTIVITIES

The following items are normally included in the financing activities section:

- proceeds from loans
- repayment of a loan
- proceeds from shares issued to shareholders (includes shares issued at a premium)

CASH FLOW STATEMENT: STEP BY STEP

1. Know the format.
2. Analyse the movements, item by item, that occurred in the balance sheet as set out at the beginning and end of the relevant period.

A MOVEMENT CAUSED BY A DEBIT ENTRY = A CASH OUTFLOW
(amount) in brackets = outflow

e.g.

	Inventories	
Bank	(xxx)	

in brackets = outflow

A MOVEMENT CAUSED BY A CREDIT ENTRY = A CASH INFLOW
amount without brackets = inflow

e.g.

	Debtors	
	Bank	xxx

without brackets = inflow

3. Start with the notes to the cash flow statement.

NOTE 1

Reconciliation between profit before taxation and cash generated from operations				R
Profit before taxation				XX
Adjustments in respect of:				
Depreciation				XX
Interest paid (finance costs)				XX
Income from investments				(XX)
Operating profit before changes in working capital:				XX
Inventories	increase / decrease	increase = (xx)	decrease = no brackets	e.g. (XX)
Debtors	increase / decrease	increase = (xx)	decrease = no brackets	e.g. (XX)
Creditors	increase / decrease	decrease = (xx)	increase = no brackets	e.g. X
Cash generated from operations				XXX

NOTE 2

	Net change	Current	Previous
Cash and cash equivalents:	R	R	R
Bank	XX	XXX	XX

Cash float	-	X	XX
Petty cash	-	X	XX
	XX	XXX	XXX

The following two notes are not required, but are shown so that marks can be awarded for calculations:

NOTE 3

Dividends paid	R
Amount in financial statements	(xx)
Balance on last day of previous year	(xx)
Balance on last day of current year	xx
Amount paid	(xxx)

NOTE 4

Taxation paid	R
Amount in income statement	(xx)
Balance owing at last date of previous year	(xx)
Balance owing at closing date of current year	xx
Amount paid	(xxx)

4. Draw up the cash flow statement.

FORMAT

XYZ LTD		
CASH FLOW STATEMENT FOR THE YEAR ENDED		
	Notes	R
Cash flow from operating activities		xxx
Cash generated from operations	(1)	xxx
Interest paid (finance cost)		(xx)
Interest income		xx
Interest paid (finance cost)		(xx)
Dividends paid	(3)	(xx)
Taxation paid	(4)	(xx)
Cash flow from investing activities		(xx)
Purchase of non-current assets		(xx)
Proceeds from disposal of non-current assets		xx
Cash flow from financing activities		xxx
Proceeds from shares issued (including premium)		xxx
Proceeds from non-current liabilities		xxx
Payment of non-current liabilities		(xx)
Net change in cash and cash equivalents		(xx)
Cash and cash equivalents: beginning of period / year	(2)	xxx
Cash and cash equivalents: end of period / year	(2)	xxx

ACTIVITY 4

The given information for the accounting period 1 March 20.7 to 28 February 20.8, with comparative figures for the previous period where applicable, were taken from the books of Phat Joe Ltd.

INSTRUCTION

- 4.1 Show the "**Cash flows from operating activities**" as it should appear on the cash flow statement on 28 February. calculations.
- 4.2 The activities of a company may be classified into three broad categories when drawing up the cash flow statement. Name the three activities.
- 4.3 Calculate the net changes in cash and cash equivalents.

Extract from the Income statement for the year ended 28 February 20.8	
	R
Sales (net)	1 071 000
Depreciation: Equipment	20 000
Interest expense	29 200
Net profit before tax	306 000
Taxation	137 500
Interest on investments	12 000

Extract from the Balance sheet on 28 February 20.8			
	Note	20.8	20.7
		R	R
ASSETS			
Tangible assets: Land and buildings		790 700	660 700
Equipment at carrying value		130 800	126 800
Trade and other receivables	(1)	170 000	120 000
Inventories		167 500	170 000
Cash and cash equivalents		30 000	6 000
EQUITY AND LIABILITIES			
Equity capital		750 000	550 000
Accumulated profit		120 000	81 500
Non-current liabilities		174 000	213 000
Trade and other payables	(2)	245 000	239 000

Extract from the Notes to the financial statements		
	20.8	20.7
	R	R
1. Trade and other receivables		
Net trade debtors	148 000	113 000
Prepaid expenses	13 000	7 000
SARS (income tax)	9 000	0
	170 000	120 000
3. Accumulated profit	20.8	20.7

Accumulated profit as disclosed on balance sheet includes:		
Ordinary share dividends (paid and recommended)	130 000	-
2. Trade and other payables		
	20.8	20.7
Trade creditors	158 000	185 000
Accrued expenses	12 000	10 000
SARS (income tax)	0	11 000
Shareholders for dividends	75 000	33 000
	245 000	239 000

ACTIVITY 4

ANSWER SHEET

4.1 Extract from

PHAT JOE LTD		
CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 20.8		
	Notes	R

Cash flow from operating activities		
Cash generated from operations	(1)	
Interest paid		
Interest income		
Dividends paid	(3)	
Taxation paid	(4)	

NOTES TO THE CASH FLOW STATEMENT

1.	Reconciliation between profit before taxation and cash generated from operations	
		R
	Profit before taxation	
	Adjustments in respect of:	
	Depreciation	
	Interest on investments	
	Interest paid (finance cost)	
	Operating profit before changes in working capital	
	Inventories increase / decrease	
	Receivables increase / decrease	
	Payables increase / decrease	
	Cash generated from operations	

3.	Dividends paid	R
	Amount in financial statements	
	Balance owing at 28 February 20.7	
	Balance owing at 28 February 20.8	
	Amount paid	

Calculation: T-account

Shareholders for dividends			
Bank (amount paid during year)		Balance	
Balance	c/d	Dividends (interim and final)	

		Balance	b/d
--	--	---------	-----

4.	Taxation paid	R
	Income statement amount	
	Balance owing at 28 February 20.7	
	Balance owing at 28 February 20.8	
	Amount paid	

Calculation: T-account

SARS (income tax)			
Bank (amount paid during year)		Balance (beginning of year)	
		Income tax (income statement amount)	
		Balance (end of year)	
Balance	b/d		

4.2	(1)
	(2)
	(3)

4.3 Net change in cash and cash equivalents

	Net change	20.8	20.7
	R	R	R
Bank			

ACTIVITY 5

INSTRUCTION

- 5.1 Show the "**Cash flow from investing activities**" as it should appear on the cash flow statement of Hip Hop Ltd on 30 June 20.9.
- 5.2 Explain briefly why it is important to include a cash flow statement in the company's annual report.

	HIP HOP LTD
Extract from:	BALANCE SHEET ON 30 JUNE 20.9

	Notes	20.9	20.8
ASSETS	R	R	R
Non-current assets			
Tangible assets	1	445 000	300 000

Extract from: **NOTES TO THE FINANCIAL STATEMENTS**

3.

TANGIBLE ASSETS	Land and buildings	Vehicles	Equipment	Total
	R	R	R	R
Cost price	250 000	36 000	24 000	310 000
Accumulated depreciation	-	(6 000)	(4 000)	(10 000)
Carrying value (31 October 20.0)	250 000	30 000	20 000	300 000
Movements				
Additions at cost	125 000	13 500	17 550	156 050
Disposals at carrying value	-	-	(3 000)	(3 000)
Depreciation for the year	-	(3 500)	(4 550)	(8 050)
Carrying value (31 October 20.1)	375 000	40 000	30 000	445 000
Cost price	375 000	49 500	36 550	461 050
Accumulated depreciation	-	(9 500)	(6 550)	(16 050)

Additional information

During the year, old equipment with a cost price of R5 000 was sold for cash at carrying value.

ACTIVITY 5

ANSWER SHEET

5.1 Extract from

HIP HOP LTD		
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 20.9		
	Notes	R
Cash flow from investing activities		
Purchase of non-current assets	Cal (1)	
Proceeds from sale of non-current assets	Cal (1)	

Note 5	Non-current assets	R
	Land and buildings	
	Vehicles	
	Equipment	

Calculations: The following notes are shown so that marks can be awarded for calculations:

(1)

Land and buildings			
Balance (beginning of year)			
Bank (purchases)	*	Balance (end of financial year) c/d	
Balance	b/d		

***balancing amount**

(2)

Vehicles			
Balance (beginning of year)			
Bank (purchases)	*	Balance (end of financial year) c/d	
Balance	b/d		

***balancing amount**

(3)

Equipment			
Balance (beginning of year)		Asset disposal (CP)	
Bank (purchases)	*	Balance (end of financial year) c/d	
Balance	b/d		

***balancing amount**

Accumulated depreciation on equipment			
Asset disposal		Balance (beginning of year)	
Balance (end of financial year)		Depreciation	*
		Balance	b/d

***balancing amount**

(4)

Asset disposal

Equipment (CP)		Acc dep on equipment *	
		Bank (sold at carrying value)	

*balancing amount

5.2 Purpose of a cash flow statement

ACTIVITY 6

Sunray Limited was registered with a share capital of 500 000 ordinary shares of R2 each. The board of directors issued a total of 300 000 shares when starting business operations. The accounting period ends on the last dat of August each year.

INSTRUCTION

- 6.1 Prepare the "**Cash flows from financing activities**" on the cash flow statement statement for the year ended 31 August 20.9.
- 6.2 How would you classify the following transactions when preparing the cash flow statement? As a operating activity, an investing activity or a financing activity?
- 6.2.1 Issue of new shares.
 - 6.2.2 Cheques received from debtors.
 - 6.2.3 Purchase of non-current assets (e.g.) Vehicles.

INFORMATION

1. The dividends for the financial year were as follows:

Dividend declared and paid on 16 February 20.9 on all shares issued up to date: Interim dividend: R18 000 (6 cents per share)

Dividend declared on 31 August 20.9 on all shares issued up to date: Final dividend: R52 000 (13 cents per share)

2. On 5 March 20.9 the company offered additional shares to the public at R2,75 per share. All the shares were applied for and the money was received on 15 April 20.9.
3. The mortgage bond was R60 000 at the end of the accounting period. R20 000 was repaid half-way through the year. The interest rate is 20% pa.

ACTIVITY 6

ANSWER SHEET

6.1 Extract from

SUNRAY LTD		
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST 20.9		
	Notes	R
Cash flow from financing activities		
Proceeds from shares issued (including premium)	Cal (1)	
Payment of non-current liability	Cal (2)	

Calculations: The following notes are shown so that marks can be awarded for calculations:

(1) Proceeds from issue of share capital

Final dividend on 31 August 20.9	= R52 000 (13 cents per share)
Calculate issued shares on 31 August 20.9:	final dividend x 100
	13 c 1
	= issued shares

Shares issued at par: R2 per share

Ordinary share capital			
		Balance	
Balance		Bank	
		Balance	

Shares issued at premium: 75 c per share

Share premium			
		Balance	-
Balance		Bank	
		Balance	

(2) Payment of non-current liability

Mortgage bond			
Bank (repayment)		Balance	b/d
Balance (end of year)			
		Balance	b/d

6.2

6.2.1

6.2.2

--

6.2.3

ACTIVITY 7

The information given hereafter was extracted from the financial statements of Nahoon Limited on 28 February 20.3, the end of the financial year.

INSTRUCTION

- 7.1 Prepare the cash flow statement of Nahoon Ltd for the year ended 28 February 20.3, together with the relevant notes.
- 7.2 What dividend per share was declared for 20.3?

INFORMATION

Extract from

INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 20.3		R
Sales		600 000
Operating income for the year		218 000
Operating expenses:	Depreciation: Equipment	?
	Depreciation: Vehicles	?

Interest on loan	9 000
Director's remuneration	24 000
Auditor's remuneration	12 000
Income tax	80 000

Extract from

BALANCE SHEET ON 28 FEBRUARY 20.3	20.3	20.2
	R	R
ASSETS		
Tangible assets	362 000	345 000
Inventories	40 000	54 000
Receivables (Debtors)	65 000	40 000
Cash and cash equivalents: Bank	11 000	-
Total assets	478 000	439 000
EQUITY AND LIABILITIES		
Ordinary shares of R2 each	300 000	280 000
Share premium	30 000	-
Accumulated profit	72 000	32 000
Non-current liabilities: Loan	18 000	63 000
Payables (Creditors)	58 000	52 000
Bank overdraft	-	12 000
Total equity and liabilities	478 000	439 000

Additional information to the balance sheet

- The authorised share capital of the company is 200 000 ordinary shares of R2 each.
- Tangible assets consists of:

	20.3	20.2
--	-------------	-------------

	R	R
Land and building at cost	300 000	275 000
Vehicles: Cost price	50 000	70 000
Accumulated depreciation	18 000	26 000
Equipment: Cost price	40 000	30 000
Accumulated depreciation	10 000	4 000

Vehicles (with a cost price of R20 000 and accumulated depreciation of R15 000) was sold for its carrying amount during the year.

New equipment was purchased during the year.

3. No interim dividend was declared and paid during the financial year.
4. Payables (creditors) includes an amount owing to the shareholders for dividends, (20.3) R40 000 and (20.2) R30 000.
5. No income tax was due in respect of the previous and current financial year.

ACTIVITY 7

ANSWER SHEET

7.1

NAHOON LIMITED		
CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 20.3		
	Notes	R
Cash flow from operating activities		
Cash generated from operations	1	
Finance cost (interest expense)		
Dividends paid	3	
Taxation paid	4	
Cash flow from investing activities		
Purchase of non-current assets	5	
Proceeds from disposal of non-current assets		
Cash flow from financing activities		
Proceeds from shares issued		
Payment of non-current liability		

Net change in cash and cash equivalents		
Cash and cash equivalents: beginning of year	2	
Cash and cash equivalents: end of year	2	

NOTES TO THE CASH FLOW STATEMENT

1.	Reconciliation between profit before taxation and cash generated from operations		
			R
	Profit before taxation	(see calculation)	
	Adjustments in respect of:	Depreciation	
		Finance cost (interest expense)	
	Operating profit before changes in working capital		
	Inventories	increase / decrease	
	Receivables	increase / decrease	
	Payables	increase / decrease	
	Cash generated from operations		

To calculate profit before taxation:

Appropriation account			
Tax		Net profit	
Dividends		Acc profit	
Acc profit		(beginning)	
(end)			

→ **balancing amount**

2.	Cash and cash equivalents	Net changes	20.3	20.2
		R	R	R
	Bank			

Cash float			
Petty cash			

Calculations shown

3. Dividends paid	R
Amount in financial statements	
Balance owing: 28 February 20.2	
Balance owing: 28 February 20.3	
Amount paid	

OR

Shareholders for dividends			
Bank		Balance	b/d
Balance	c/d	Dividends	
		Balance	b/d

4. Taxation paid	R
Amount in income statement	
Balance owing: 28 February 20.2	-
Balance owing: 28 February 20.3	-
Amount paid	

OR

SARS (income tax)			
Bank		Balance	b/d -
Balance	c/d -	Income tax	
		Balance	b/d -

5. Non-current assets purchased	R
Land and buildings	
Equipment	

Calculations of tangible assets

<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="4">Land and buildings</th> </tr> <tr> <td>Balance</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Bank</td> <td></td> <td>Balance</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Balance</td> <td></td> <td></td> <td></td> </tr> </table>	Land and buildings				Balance				Bank		Balance						Balance				<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="4">Equipment</th> </tr> <tr> <td>Balance</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Bank</td> <td></td> <td>Balance</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Balance</td> <td></td> <td></td> <td></td> </tr> </table>	Equipment				Balance				Bank		Balance						Balance			
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7.2 Dividend per share declared

Interim + final dividend	x	100 cents
Number of shares issued		1

COMPANIES

ACTIVITY 1

SOLUTION

GENERAL LEDGER OF PRESLEY LTD.

Balance sheet accounts section

Dr	Ordinary share capital						Cr
				20.1			
				March 1	Bank (R200 000 X R2)	CRJ	400 000
				Sept 30	Bank (R50 000 x R2)	CRJ	100 000
							500 000

Dr	Share premium						Cr
				20.1			
				Sept 30	Bank (R50 000 x 75 cents)	CRJ	37 500

Dr		Accumulated profit				Cr	
				20.2			
				Feb 28	Appropriation	GJ	20 250

Dr		SARS - Income tax				Cr	
20.1				20.2			
Aug 29	Bank	CPJ	30 500	Feb 28	Income tax	GJ	54 750
20.2					(R120 000 x 40%) +		
Feb 20	Bank	CPJ	22 000		(R45 000 x 15%)		
Feb 28	Balance	c/d	2 250				
			54 750				54 750
				March 1	Balance	b/d	2 250

Dr		Shareholders for dividends				Cr	
20.1				20.1			
Aug 31	Bank	CPJ	20 000	Aug 31	Ordinary share dividends	GJ	20 000
20.2				20.2	(interim)		
Feb 28	Balance	c/d	25 000	Feb 28	Ordinary share dividends	GJ	25 000
					(final = R500 000 x 5%)		
			45 000				45 000
				March 1	Balance	b/d	25 000

Nominal accounts section:

Dr		Income tax				Cr	
20.2				20.2			
Feb 28	SARS (income tax)	GJ	54 750	Feb 28	Appropriation	GJ	54 750

Dr		Ordinary share dividends				Cr	
20.1				20.2			
Aug 31	Shareholders for dividends	GJ	20 000	Feb 28	Appropriation	GJ	45 000

	(200 000 x 10 cents)						
Feb 28	Shareholders for dividends	GJ	25 000				
	(R500 000 x 5%)						
			45 000				45 000

Dr		Appropriation account				Cr	
20.2				20.2			
Feb 28	Income tax	GJ	54 750	Feb 28	Profit and loss	GJ	120 000
	Ordinary share dividends	GJ	45 000		(Net profit)		
	(interim + final)				Accumulated profit	GJ	-
	Accumulated profit (end)	GJ	20 250		(beginning)		
			120 000				120 000

CAPITAL AND RESERVES ON 28 FEBRUARY 20.2	
Ordinary share capital	R500 000
Share premium	37 500
Accumulated profit (28 February 20.2)	20 250
(also known as ordinary shareholders equity)	<u>R557 750</u>

ACTIVITY 2

SOLUTION

BATA SHOES LTD			
INCOME STATEMENT FOR THE YEAR ENDED 31 OCTOBER 20.1			
	Notes	R	R
Sales (R762 620 - R260)			762 360
Cost of sales (R510 000 - R130)			(509 870)
Gross profit			252 490
Other operating income			41 010
Rent income (R9 800 - R1 400)		8 400	
Fee income (R32 400 - R20)		32 380	
Trading stock surplus		30	
Profit on sale of asset		200	
Gross operating income			293 500
Operating expenses			(185 544)
Auditors fees		3 554	
Salaries and wages (R93 560 + R6 700 + R110 + R210)		100 580	
Depreciation (R400 + R4 250 - R100)		4 550	
Stationery (R7 330 - R330)		7 000	
Provision for bad debts adjustment (increase)		300	
Directors fees		60 000	
Sundry expenses (9 420 + 140)		9 560	
Operating profit			107 956
Interest income	(1)		271
Profit before finance cost	(2)		108 227
Finance cost			(13 500)
Profit before tax			94 727
Taxation (R42 627 + R2 112)			(44 739)
Net profit for the year	(9)		49 988

--	--	--	--

BATA SHOES LTD			
BALANCE SHEET ON 31 OCTOBER 20.1			
	Note	R	R
ASSETS			
Non-current assets			190 750
Tangible assets	(3)	190 750	
Financial assets		-	
Fixed deposit		-	
Current assets			72 411
Inventory	(4)	40 030	
Trade and other receivables	(5)	9 321	
Cash and cash equivalents	(6)	23 060	
Total assets			263 161
EQUITY AND LIABILITIES			
Capital and reserves			152 408
Equity capital	(7)	64 000	
Share premium	(8)	2 500	
Accumulated profit	(9)	85 908	
Non-current liabilities			
Mortgage bond			45 000
Current liabilities			65 753
Trade and other payables	(10)	45 753	
Short term loan		20 000	
Total equity and liabilities			263 161
BATA SHOES LTD			
NOTES TO FINANCIAL STATEMENTS			
			R
1. Interest income			

from overdue debtors (R700 x 18% x 2/12)	21
from current accounts	250
	271

	R	R	R
2. Finance cost			
on mortgage bond (R12 350 + R1 150)			13 500
3. Tangible assets	Land and	Equipment	Total
	buildings		
Cost price	169 000	44 000	213 000
Accumulated depreciation	-	(19 900)	(19 900)
Carrying value (31 October 20.0)	169 000	24 100	193 100
Movements			
Additions at cost	-	5 000	5 000
Disposals at carrying value	-	(2 800)	(2 800)
Depreciation for the year	-	(4 550)	(4 550)
Carrying value (31 October 20.1)	169 000	21 750	190 750
Cost price	169 000	45 000	214 000
Accumulated depreciation	-	(23 250)	(23 250)
4. Inventories			
Trading stock (R39 540 + COS R130 + Surplus R30)			39 700
Consumable stores on hand			330
			40 030
5. Trade and other receivables			
Trade debtors (R6 880 + A disposal R3 000 + Interest R21 - D allow R260 - Fee inc R20)			9 621
Provision for bad debts			(300)
Net trade debtors			9 321
6. Cash and cash equivalents			
Bank (Balance R19 650 + Interest R250 - Bank charges R140 + post-dated cheque R2 500)			22 260
Cash float			800
			23 060
7. Equity capital			

Authorised			
50 000 ordinary shares at R10 each			500 000

	R	R
Issued		
4 900 ordinary shares at R10 each on 31 October 20.0		49 000
1 500 ordinary shares at R10 each issued during financial year		15 000
6 400 ordinary shares at R10 each on 31 October 20.1		64 000
8. Share premium		
Balance at 31 October 20.0		1 750
Share issue during the year: 1 500 Shares at 50 cents premium		750
Balance at 31 October 20.1		2 500
9. Accumulated profit		
Accumulated profit on 31 October 20.0		50 000
Net profit for the year		49 988
Ordinary dividends:		(14 080)
Paid	8 960	
Recommended (6 400 shares x 80 cents)	5 120	
Accumulated profit on 31 October 20.1		85 908
10. Trade and other payables		
Trade creditors (Balance R20 420 + Post-dated cheque R2 500)		22 920
Accrued expenses (Auditors fees R3 554 + Interest on loan R1 150)		4 704
Income received in advance (Rent income R1 400)		1 400
SARS:		5 809
Income tax (Income tax R44 739 - Provisional payments R42 000)	2 739	
PAYE (R1 400 + R1 670)	3 070	
Creditors for salaries		4 390
Medical fund (R280 + R220 + R110)		800
Pension fund (R170 + R420 + R210)		610
Shareholders for dividends		5 120
		45 753

CALCULATIONS

Adj 4

- L +	- L +
Creditors for salaries	Pension fund
Salaries	Balance
4 390	170
(R6 700 - R1 670 - R220 - R420)	Salaries
	(d) 420
	Salaries
	(c) 210
	<u>800</u>
- L +	- E +
SARS (PAYE)	Salaries
Balance	Balance
1 400	93 560
Salaries	Profit & loss
(d) 1 670	100 580
<u>3 070</u>	Gross
	salaries
	6 700
	M aid
	110
	P fund
	210
	<u>100 580</u>
	<u>100 580</u>
- L +	
Medical aid	
Balance	
280	
Salaries	
(d) 220	
Salaries	
(c) 110	
<u>610</u>	
(d) = deduction	(c) = contribution

Adj 5

Loan from Dark Rock Bank			
Balance on 1 November 20.0 = R85 000 (R65 000 + R20 000 repayment)			
Balance on 31 October 20.1 = R65 000			
Interest on loan:			
	R85 000	x 18%	x 6/12 =
			R 7 650
	R65 000	x 18%	x 6/12 =
			<u>5 850</u>
			<u>R13 500</u>
- E +			
Interest on loan			
Balance	12 350	P & L	13 500
Acc exp	1 150		
	<u>13 500</u>		<u>13 500</u>

Adj 6 & 7

+ A -				+ A -			
Acc dep on equipment				Asset disposal			
		Balance	19 000	Equip	4 000	Acc dep	1 200
Balance	23 250	Dep (2)	4 250	Profit	200	D control	3 000
	23 250		23 250		4 200		4 200
		Balance	23 250				
<p style="margin-left: 40px;">(2) Dep on 31 October 20.1</p> <p style="margin-left: 80px;">Old equip: (balance R45 000 - new R5 000)</p> <p style="margin-left: 120px;">$R40\ 000 \times 10\% = R4\ 000$</p> <p style="margin-left: 120px;">New equip: $R5\ 000 \times 10\% \times 6/12 =$ 250</p> <p style="margin-left: 120px;">R4 250</p>							

Adj 15

Income tax			
R94 727 (net profit)	x	45%	= R42 627
R14 080 (dividends paid and declared)	x	15%	= 2 112
			R44 739

ACTIVITY 3

SOLUTION

3.1	Final dividend per share: $\frac{\text{dividend}}{\text{number of shares issued}}$ $\frac{\text{R12 000}}{25\ 000} \times \frac{100}{1} \text{ cents} = \text{48 cents}$
-----	--

3.2	Total amount paid out as interim dividends 20 000 shares x 30c = R6 000
-----	--

SARS (income tax)			
Bank	20 000	Balance (beginning of year)	2 000
(amount paid during 20.4)		Income tax	*17 000
		Balance	c/d 1 000
	20 000		20 000
Balance (end of year)	b/d 1 000		
Income tax assessment 20.4 =		R17 000	

3.4	BALANCE SHEET ON 31 DECEMBER 20.4	R	R
	Capital and reserves		130 000
	Equity capital	100 000	
	Accumulated profit	30 000	
	Non-current liabilities		
	Mortgage bond		20 000

3.5	NOTES TO FINANCIAL STATEMENTS	R
	Trade and other payables	
	Trade creditors	40 000
	Shareholders for dividends	12 000
		62 000

Please Note: Bank overdraft, R12 000 and Short term loan, R10 000 will be on face of balance sheet with trade and other payables. SARS (income tax), will be shown with with trade and other receivables - debit balance end of accounting period.

ACTIVITY 4

SOLUTION

4.1 Extract from:

PHAT JOE LTD		
CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 20.8		
	Notes	R
Cash flow from operating activities		17 000
Cash generated from operations	(1)	279 700
Interest on investments		12 000
Interest paid		(29 200)
Dividend paid	(3)	(88 000)
Taxation paid	(4)	(157 500)

NOTES TO THE CASH FLOW STATEMENT

1.

Reconciliation between profit before taxation and cash generated from operations			
			R
Profit before taxation			306 000
Adjustments in respect of:			
Depreciation			20 000
Interest expense (finance cost)			29 200
Interest on investments			(12 000)
Operating profit before changes in working capital			343 200
Inventories	increase / decrease	(R170 000 - R167 500)	2 500
Receivables	increase / decrease	(R161 000 - R120 000)	(41 000)
Payables	increase / decrease	(R195 000 - R170 000)	(25 000)
Cash generated from operations			279 700

(3)

Dividends paid		R
Amount in financial statements		(130 000)
Balance owing at 28 February 20.7		(33 000)
Balance owing at 28 February 20.8		75 000
Amount paid		(88 000)

OR

Alternative method: T-account

Shareholders for dividends			
Bank (amount paid during year)	88 000	Balance (beginning of year)	33 000
Balance (end of year)	75 000	Dividends (interim and final)	130 000

	163 000		163 000
		Balance (end of year b/d)	75 000

Remember!!!

**A movement caused by a debit entry = a cash outflow
(amount) in brackets = outflow**

(4)

Taxation paid		R
Amount in income statement		(137 500)
Balance owing at 28 February 20.7)	(credit balance)	(11 000)
Balance owing at 28 February 20.8)	(debit balance)	9 000
Amount paid		(157 500)

OR

Alternative method: T-account

SARS (Income Tax)			
Bank (amount paid during year)	157 500	Balance (owing beginning of year)	11 000
		Income Tax (Income Statement amount)	137 500
		Balance (end of year)	9 000
	157 500		157 500
Balance (receivable end of year)	9 000		

**A movement caused by a debit entry = a cash outflow
(amount) in brackets = outflow**

4.2

(1)	Operating activities
(2)	Investing activities
(3)	Financing activities

4.3 **Net change in cash and cash equivalents**

	Net change	20.8	20.7
	R	R	R
Bank (net change = increase)	24 000	30 000	6 000

ACTIVITY 5

SOLUTION

5.1 **Extract from:**

HIP HOP LTD		
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 20.9		
	Notes	R
Cash flow from investing activities	*	(153 050)
Purchase of non-current assets	(1)	(156 050)
Proceeds from sale of non-current assets	(2)	3 000

$$\begin{aligned}
 * \text{ Outflow: } & R125\,000 + R13\,500 + R17\,550 = (R156\,050) \\
 \text{Inflow:} & = \underline{3\,000} \\
 \text{Net outflow} & = \underline{\underline{(R153\,050)}}
 \end{aligned}$$

Note 5

Non-current assets	R
Land and buildings	(125 000)
Vehicles	(13 500)
Equipment	(17 550)
	(156 050)

Calculations: *The following notes are not required, but are shown so that marks can be awarded for calculations:*

(1)

Land and buildings			
Balance (beginning of year)	250 000		
Bank (purchases)	* 125 000	Balance (end of financial year) c/d	375 000
	375 000		375 000
Balance	b/d 375 000		
*balancing amount			

Remember!!!

A movement caused by a debit entry = a cash outflow (amount) in brackets = outflow

(2)

Vehicles			
Balance (beginning of year)	36 000		
Bank (purchases)	* 13 500	Balance (end of financial year) c/d	49 500
	49 500		49 500
Balance	b/d 49 500		
*balancing amount			

Remember!!!

**A movement caused by a debit entry = a cash outflow
(amount) in brackets = outflow**

(3)

Equipment			
Balance (beginning of year)	24 000	Asset disposal (CP)	5 000 (amount given)
Bank (purchases) *	17 550	Balance (end of financial year) c/d	36 550
	41 550		41 550
Balance b/d	36 550		
*balancing amount			

Remember!!!

**A movement caused by a debit entry = a cash outflow
(amount) in brackets = outflow**

Accumulated depreciation on equipment			
Asset disposal	*2 000	Balance (beginning of year)	4 000
Balance (end of financial year)	6 550	Depreciation	4 550
	8 550		8 550
		Balance b/d	6 550

***balancing amount**

(4)

Asset disposal			
Equipment (CP)	5 000	Acc dep on equipment	2 000
		Bank (sold at carrying value) *	3 000
	5 000		5 000
		*balancing amount	

5.2 Purpose of a cash flow statement:

The purpose of a cash flow statement is to supply the users of financial statements with information on the source and application of all financial sources during an accounting period.

ACTIVITY 6

SOLUTION

6.1 Extract from:

SUNRAY LTD
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 AUGUST 20.9

	Notes	R
Cash flow from financing activities		255 000
Proceeds from shares issued (including premium)	Cal (1)	275 000
Payment of non-current liability	Cal (2)	(20 000)

Calculations: *The following notes are not required, but are shown so that marks can be awarded for calculations:*

(1) Proceeds from shares issued

Final dividend on 31 August 20.9 = R52 000 (13 cents per share)
Calculate issued shares on 31 August 20.9: final dividend x 100
13 c 1
= issued shares
R52 000 x 100
13c 1 = 400 000 shares
Shares issued: 400 000 - 300 000 = 100 000 shares

Shares issued at par: R2 per share

Ordinary share capital			
		Balance	*600 000
Balance	800 000	Bank	**200 000
	800 000		800 000
		Balance	***800 000

* 300 000 shares x R2 = R600 000

** 100 000 shares x R2 = R200 000

***400 000 shares x R2 = R800 000

Shares issued at premium: 75 c per share

Share premium			
		Balance	-
Balance	75 000	Bank	*75 000
	75 000		75 000
		Balance	**75 000

* 100 000 shares x 75c = R75 000

**100 000 shares x 75c = R75 000

A movement caused by a credit entry = cash inflow (amount without brackets)

Proceeds: R200 000 + R75 000 = R275 000

(2) Payment of non-current liability

Mortgage bond				
Bank (repayment)	20 000	Balance	b/d/	80 000
Balance (end of year)	60 000			
	80 000			80 000
		Balance	b/d	60 000

A movement caused by a debit entry = a cash outflow
(amount) in brackets = outflow

6.2**6.2.1**

Financing activities	(inflow)

6.2.2

Operating activities	(inflow)

6.2.3

Investing activities	(outflow)

ACTIVITY 7**SOLUTION****7.1**

NAHOON LIMITED		
CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 20.3		
	Notes	R
Cash flows from operating activities		48 000
Cash generated from operations	1	167 000

Finance cost		(9 000)
Dividends paid	(3)	(30 000)
Taxation paid	(4)	(80 000)
Cash flow from investing activities		(30 000)
Purchase of non-current assets		(35 000)
Proceeds from disposal of non-current assets		5 000
Cash flow from financing activities		5 000
Proceeds from shares issued (R20 000 + R30 000)		50 000
Payment of non-current liability (R63 000 - R18 000)		(45 000)
Net change in cash and cash equivalents		23 000 *
Cash and cash equivalents: beginning of year	2	(12 000)
Cash and cash equivalents: end of year	2	11 000

	R
* Operating activities	48 000
Investing activities	(30 000)
Financing activities	5 000
Net change in cash	23 000

NOTES TO THE CASH FLOW STATEMENT

1. Reconciliation between profit before taxation and cash generated from operations			R
Profit before taxation			160 000
Adjustments in respect of: Depreciation (Eq R6 000 + Veh R7 000)			13 000
Interest expense (finance cost)			9 000
Operating profit before changes in working capital			182 000
Inventories	increase / decrease	([20.2] R54 000 - [20.3] R40 000)	14 000
Receivables	increase / decrease	([20.3] R65 000 - [20.2] R40 000)	(25 000)
Payables	increase / decrease	([20.2] R22 000 - [20.3] R18 000)	(4 000)
Payables : [20.2] R52 000 - R30 000 = R22 000 [20.3] R58 000 - R40 000 = R18 000			

Cash generated from operations

167 000

To calculate profit before taxation:

Appropriation account			
Tax	80 000	Net profit	160 000 → balancing amount
Dividends	40 000	Acc profit	32 000
Acc profit	72 000	(beginning)	
(end)	192 000		192 000

2.	Cash and cash equivalents	Net changes	20.3	20.2
	Bank	23 000	11 000	(12 000)

3.	Dividends paid	R
	Amount in financial statements	40 000
	Balance owing: 28 February 20.2	30 000
	Balance owing: 28 February 20.3	(40 000)
	Amount paid	30 000

OR

Shareholders for dividends			
Bank	(30 000)	Balance b/d	30 000
Balance c/d	40 000	Dividends	40 000
	70 000		70 000
		Balance b/d	40 000

4.	Taxation paid	R
	Amount in income statement	(80 000)
	Balance owing: 28 February 20.2	-
	Balance owing: 28 February 20.3	-
	Amount paid	(80 000)

OR

SARS (income tax)			
Bank	80 000	Balance b/d	-
Balance c/d	-	Income tax	80 000
	80 000		80 000
		Balance b/d	-

(5)	Non-current assets purchased	R
-----	-------------------------------------	----------

Land and buildings	(25 000)
Equipment	(10 000)
	(35 000)

Calculations

Land and buildings			
Balance	275 000		
Bank	25 000	Balance	300 000
	300 000		300 000
Balance	300 000		

Equipment			
Balance	30 000		
Bank	10 000	Balance	40 000
	40 000		40 000
Balance	40 000		

Acc dep on equipment			
		Balance	4 000
Balance	10 000	Depreciation	6 000
	10 000		10 000
		Balance	10 000

Vehicles			
Balance	70 000	A disposal	20 000
		Balance	50 000
	70 000		70 000
Balance	50 000		

Acc dep on vehicles			
A disposal	15 000	Balance	26 000
Balance	18 000	Depreciation	7 000
	33 000		33 000
		Balance	18 000

Asset disposal			
Vehicles	20 000	Acc dep	15 000
		Bank (SP)	5 000
	20 000		20 000

(proceeds of sale of vehicles)

Calculations

Ordinary share capital			
		Balance	280 000
Balance	300 000	Bank	20 000
	300 000		300 000
		Balance	300 000

Share premium			
		Balance	-
Balance	30 000	Bank	30 000
	30 000		30 000
		Balance	30 000

7.2 Dividend per share declared

<u>Interim + final dividend</u>	x	100 cents
Number of shares issued		1
<u>R 40 000</u>	x	100 cents
150 000		1
= 26,67 cents		