PARTNERSHIPS

SPECIFIC OUTCOMES

When you have completed your study of these notes you should be able to:

- Understand the partnership concept.
- Complete the various accounts relating specifically to partnerships.
- Prepare final accounts of a partnership.
- Prepare the following detailed financial statements of a partnership:
  - Income Statement
  - Balance Sheet
- Analysis and interpretation of financial statements (ratio analysis)

1. INTRODUCTION

A partnership is the natural extension from the operation of a sole trader. As the business of the sole trader grows, there must come a time when it becomes too big for him / her to manage on his / her own, or the capital required for the expansion cannot be supplied by himself / herself. It therefore becomes desirable for more than one person to participate in the ownership of the business.

A partnership can generally be defined as a legal relationship between two or more persons up to a maximum of 20 persons (according to section 30 of the Companies Act 1973, as amended) who jointly carry on a lawful business to which each makes a contribution in the form of cash, assets, knowledge, etc. The objective of a partnership is to make a profit which is to be shared between the partners according to a **partnership agreement**.

The **partnership agreement** is a contract between the partners and it is advisable that it should be in writing. A partnership agreement should cover some of the following aspects among others:

- Capital contributions
- Profit sharing ratio
- Interest on capital accounts
- Partners' salaries
- Withdrawals by partners

A partnership is not a legal entity and has no independent legal existence separate from its members. Therefore the partnership does not pay tax. The profit of the partnership is taxed in the hands of the individual partners. Another important characteristic of a partnership is that the partners are jointly and severally liable for the debts of the partnership. ("Jointly and severally liable" means that the partners are liable as a group but also as individuals.)

2. ADVANTAGES AND DISADVANTAGES OF A PARTNERSHIP

The **advantages** of a partnership may be summarised as follows:

The cost of forming a partnership is not expensive and the formalities are less difficult than that of a limited company.

It enables a sole trader or an existing partnership to expand its activities by admitting partners.

A partnership will have more capital at its disposal because it can rely on the resources of more than one individual.

The work load can be spread across all the partners. Often a partner has special knowledge or skills, or an aptitude for a particular aspect of the business, e.g. a person may have technical knowledge, market experience, or business experience.

A partnership is not subject to the same legal controls as a company. Thus capital can be increased or decreased whereas in the case of a company such procedures are subject to strict legal formalities.

The **disadvantages** of partnership may be summarised as follows:

Limited life. A partnership ceases on the death, retirement or insolvency of any partner.

Note: This does not prevent the remaining partners from continuing in business, but this will constitute a new partnership and a new agreement will become necessary.

A partnership is limited in size except under special circumstances to twenty persons.

Unlimited liability. The partners are liable in their personal capacity for any debts of the partnership or any actions taken or not taken by the business. This could affect the private affairs of the individual partners.

Each partner acts as an agent for the partnership and the partnership is bound by the acts of each individual partner on behalf of the business. Thus to be in partnership with an irresponsible person or one lacking in integrity can be an intolerable situation which could cause loss or hardship to the partnership.

A partnership as a business does not pay tax, therefore the partners are responsible in their personal capacity for taxation.

3. DIFFERENCES BETWEEN A SOLE TRADER AND PARTNERSHIP

The accounting differences between a sole trader and a partnership are given in the table below:

Description	Sole Trader	Partnership
1. Type of equity accounts	Capital account Drawings account The capital account will vary from year to year	Capital account Drawings account Current account (each partner will have his / her own accounts) The capital account will change only if a partner contributes further capital or reduces his capital contribution
2. Drawings account	Is transferred to the capital account at the end of the financial period	Each partner's drawings account is transferred to the relevant current accounts at the end of the financial period
3. Net profit	Is transferred to the capital account from the profit and loss account	Is transferred to the appropriation account from the profit and loss account
4. Appropriation of profit	Not applicable	The profit is appropriated / shared according to the partnership agreement

4. GENERAL LEDGER ACCOUNTS PERTAINING TO PARTNERSHIPS

4.1 Capital accounts
4.2 Current accounts
4.3 Drawings accounts
4.4 Salary accounts
4.5 Interest on capital account
4.6 Appropriation account

FORMATS

4.1 Capital accounts

A separate capital account is opened for each partner in the partnership's books. The amount contributed or withdrawn by each partner is entered in the normal way in his / her capital account.

			- E +				
Dr			**Capital: Partner A**				**Cr**
20.1				20.1			
June 30	Bank (3)	CPJ	xx	Jan 1	Balance (1)	b/d	xx
Dec 31	Balance (4)	c/d	xx	April 30	Bank (2)	CRJ	xx
				Dec 1	Vehicles (2)	GJ	xx
			xxx	20.2			xxx
				Jan 1	Balance (4)	b/d	xx

Explanation of the above:

1. This represents the balance of the capital account of partner A at the beginning of the financial year.

2. This represents capital contributed by partner A during the financial year.

3. This represents capital withdrawn by partner A during the financial year.

4. This represents the balance of the capital account of partner A at the end of the financial year.

4.2 Current accounts

A current account is opened for each partner in the books and the following items can be recorded in it:

- drawings made by a partner;
- salary of a partner;
- interest allowed on capital;
- the share of profits or losses attributable to the partner.

			- E +				
Dr		**Current account: Partner A**					**Cr**
20.1				20.1			
Dec 31	Drawings: A (4)	CPJ	xx	Jan 1	Balance (1)	b/d	xx
	Balance (5)	c/d	xx	Dec 31	Salary: A (2)		xx
					Interest on		
					capital (2)		xx
					Appropriation (3)		xx
			xxx	20.2			xxx
				Jan 1	Balance (5)	b/d	xx

Explanation of the above:

1. This represents the amount due to partner A at the beginning of the financial year. This amount may be regarded as his / her earning "retained" in the business.

2. This represents the salary and interest on capital provided to partner A, according to the partnership agreement, and brought into account at the end of the financial year.

3. This represents partner A's share of the remaining profit according to the partnership agreement. The remaining loss will be debited to the partners current accounts.

4. This represents all withdrawals by partner A during the financial year. The drawings account is closed off to the current account of partner A.

5. This represents the amount due to partner A at the end of the financial year. This is because his / her drawings did not exceed his / her earnings. If the drawings exceeded his / her earnings, the balance of the current account will be on the debit side.

4.3 Drawings accounts

The partnership agreement will usually stipulate the amount and frequency of drawings by the partners. Although the net profit is calculated mainly at the end of a financial year, profits actually accrue to a business on a daily basis. As these profits "belong" to the partners, they should be entitled to withdraw amounts during the year to meet their living expenses. However, it will not be fair on the other partners if one partner withdraws substantial amounts during a year which could cause liquidity problems for the firm. It is therefore necessary to maintain separate Drawings accounts for each partner.

			- E +				
Dr			**Drawings: A**				**Cr**
20.1				20.1			
Jan 31	Bank (1)	CPJ	xx	Dec 31	Current acc: A (3)	GJ	xx
Nov 30	Trading stock (2)	GJ	xx				
			xxx				xxx

Explanation of the above:

1. This represents all cash withdrawals by partner A, including his / her monthly salary.

2. This represents trading stock withdrawn by partner A for personal use.

3. This represents the closing transfer of the drawings account to the current account of partner A.

4.4 Salaries of partners

A partner is not entitled to a salary as remuneration for his / her services to the partnership unless the agreement stipulates this. One does not enter into a contract with oneself as employer and employee. However, when a partnership agreement does make provision for the payment of a salary to a partner, this *must* be allocated to him / her even if there is insufficient profit for appropriation. The allocation of a salary is part of the process of appropriation of profit, therefore the salaries of partners will be shown in the appropriation account and not in the profit and loss account.

A partner does not necessarily receive a monthly salary. An annual allotment can be made in terms of the partnership agreement.

If a partner takes a monthly salary, the entry is:

Dr	Drawings account of each partner	(E -)
Cr	Bank account	(A -) or (L +) if unfavourable

At the end of the financial period the annual allotment is made as follows:

Dr Partner's salary account
Cr Current account of partner

The amount debited to the partner's salary account will always be the amount he / she is entitled according to the partnership agreement. The salary account of each partner is an appropriation of the profit and is closed off to the appropriation account by means of a closing transfer.

The partner's salary allotment has two aspects at the end of each financial period.

At the year end the salary allotment must be journalised (the adjusting entry)
The partner's salary account must be closed off to the appropriation account (a closing transfer)

			-	E +			
Dr			**Salary: A**				**Cr**
20.1				20.1			
Dec 31	Current acc: A (1)	GJ	xx	Dec 31	Appropriation (2)	GJ	xx

Explanation of the above:

1. This represents the salary earned by partner A according to the partnership agreement and brought into account at the end of the financial year as an adjustment.

2. This represents the closing transfer from the salary account to the appropriation account.

4.5 Interest on capital

In the partnership agreement, provision is usually made for interest on the capital of the partners, especially when the partners' capital sums are not equal. Interest on the capital of a partner is entered as an adjustment at the end of the accounting period and is taken into account before the balance of the profit is divided according to a given ratio. Interest on capital is not an operating expense, but is seen as an appropriation of the profit. The interest is also not paid in cash.

The journal entry to take interest on capital into account is as follows:
Dr Interest on capital account. (E -)
Cr Current account of each partner. (E +)

The account for interest on capital (a nominal account) must be closed off with a closing transfer to the appropriation account.
Dr Appropriation accoun
Cr Interest on capital account

As in the case of partners' salaries, the entries for interest on capital will be made even if there is a net loss or the profit is too small to cover the interest.

			- E +				
Dr			**Interest on capital**				**Cr**
20.1				20.1			
Dec 31	Current acc: A (1)	GJ	xx	Dec 31	Appropriation (2)	GJ	xx
	Current acc: B (1)	GJ	xx				
			xx				xx

Explanation of the above:

1. This represents the interest on capital earned by each partner according to the partnership agreement and brought into account at the end of the financial year.

2. This represents the closing transfer of the interest on capital of both partners to the appropriation account at the end of the financial year.

4.6 Appropriation account

The net profit made by a partnership business during a specific accounting period must be appropriated to the partners at the end of the accounting period. This appropriation of the net profit is shown in the appropriation account. The net profit, as calculated in the profit and loss account at the end of the accounting period, is transferred to the appropriation account with a journal entry. The final appropriation ratio will be in accordance with the partnership agreement.

			- E +				
Dr			**Appropriation account**				**Cr**
20.1				20.1			
Dec 31	Salary A (2)	GJ	xx	Dec 31	Profit & Loss (1)	GJ	xx
	Salary B (2)	GJ	xx		(Net profit)		
	Interest on						
	capital (3)	GJ	xx				
	Current acc: A (4)	GJ	xx				
	Current acc: B (4)	GJ	xx				
			xxx				xxx

Explanation of the above:

1. This represents the transfer of the net profit from the profit and loss account to the appropriation account at the end of the accounting period.

2. This represents the closing transfer from each partner's salary account to the appropriation account and forms part of the primary distribution of the profit.

3. This represents the closing transfer of the partner's interest earned on their capital accounts to the appropriation account and forms part of the primary distribution of the profit.

4. This represents the final (secondary) distribution of the profits to the partner's current accounts. The remaining profit (net profit - salaries - interest on capital = remaining profit) will be divided between the partners in accordance with the profit-sharing ratio and credited to the current accounts. In the case of a remaining loss the appropriation account will be credited and the current accounts will be debited.

5. FINANCIAL STATEMENTS OF A PARTNERSHIP

The financial statements of a partnership, as in the case for a sole trader, consist of an **Income Statement** and a **Balance Sheet**.

Because more than one owner is concerned with the partnership, an appropriation of profit, including interest on capital and partners' salaries, is now shown by way of a note to the balance sheet.

In the balance sheet, the equity of the partners is shown separately and jointly. The equity here consists of the capital and current accounts. The details of the individual capital accounts and current accounts of partners are shown as a note to the balance sheet. Only closing balances of the capital and current accounts are shown on the face of the balance sheet.

FORMATS

INCOME STATEMENT

ABC TRADERS			
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	
Fee income		xx	
Profit on sale of asset		xx	
Bad debts recovered		xx	
*Trading stock surplus		xx	
*Provision for bad debts adjustment *(decrease)*		xx	
Gross operating income			xxx
Operating expenses			(xx)
(example) Rent expense		xx	
Loss on sale of asset		xx	
Depreciation		xx	
Consumable stores		xx	
Loss on stock theft		xx	
*Trading stock deficit		xx	
*Provision for bad debts adjustment *(increase)*		xx	
Operating profit			xxx
Interest income	1		xx
Profit before interest expense (or financing cost)			xxx
Interest expense (or financing cost)	2		(xx)
Net profit for the year	8		xxx

BALANCE SHEET
AND
NOTES TO FINANCIAL STATEMENTS

ABC TRADERS			
BALANCE SHEET ON …………………………..			
	Note	**R**	**R**
ASSETS			
Non-current assets			xxx
Tangible assets	3	xxx	
Financial assets			
Fixed deposit *(maturaty period more than 12 months)*		xxx	
Current assets			xxx
Inventory	4	xxx	
Trade and other receivables	5	xxx	
Cash and cash equivalents	6	xxx	
Total assets			xxx
EQUITY AND LIABILITIES			
Owner's equity			xxx
Capital	7	xxx	
Current accounts	8	xxx	
Non-current liabilities			xxx
Mortgage bond } *(not payable within 12 months)*		xxx	
Loan from …… } *(not payable within 12 months)*		xxx	
Current liabilities			xxx
Trade and other payables	9	xxx	
Bank overdraft *(if any)*		xxx	
Short term loan *(payable within 12 months)*		xxx	
Total equity and liabilities			xxx

ABC TRADERS					
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 (finance cost)**				
	on mortgage loan				xx
	on bank overdraft				xx
	on overdue creditors				xx
					xxx
3.	**Tangible assets**	Land and	Vehicles	Equipment	Total
		Buildings			
	Cost Price	xxx	xxx	xxx	xxx
	Accumulated depreciation	-	(xx)	(xx)	(xx)
	Carrying value *(last day 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.	**Inventory**				
	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
	Insurance Company				xxx
	Deposit: Water and Electricity				xxx
					xxx

6.	**Cash and cash equivalents**	**R**	**R**	**R**
	Fixed Deposit *(maturing within 12 months)*			xxx
	Savings account			xxx
	Bank (favourable) *(+ post dated cheques issued)*			xxx
	Cash float			xxx
	Petty cash			xxx
				xxx
7.	**Owner's equity**	**A**	**B**	**Total**
	Balance *(last day of previous year)*	xxx	xxx	xxx
	Additional capital contributed		xxx	xxx
		xxx	xxx	xxx
	Decreasing of capital	(xx)	(xx)	(xx)
	Balance *(last day of current year)*	xxx	xxx	xxx
8.	**Current accounts**	**A**	**B**	**Total**
	Balance *(last day of previous year)*	xxx	xxx	xxx
	Profit per income statement	xxx	xxx	xxx
	Salaries	xxx	xxx	xxx
	Interest on capital	xxx	xxx	xxx
	Primary distribution of profit	xxx	xxx	xxx
	Final distribution of profit	xxx	xxx	xxx
	Drawings for the year	(xx)	(xx)	(xx)
	Balance *(last day of current year)*	xxx	xxx	xxx
OR	***(ALTERNATIVE METHOD)***			
	Current accounts	**A**	**B**	**Total**
	Appropriation of net profit:			
	Salaries	xxx	xxx	xxx
	Interest on capital	xxx	xxx	xxx
	Primary distribution of profit	xxx	xxx	xxx
	Final distribution of profit *(secondary distribution)*	xxx	xxx	xxx
	Net profit according to income statement	xxx	xxx	xxx
	Drawings for the year	(xx)	(xx)	(xx)
		xxx	xxx	xxx
	Balance *(last day of previous year)*	xxx	xxx	xxx
	Balance *(last day of current year)*	xxx	xxx	xxx

		R	R	R
9.	**Trade and other payables**			
	Trade Creditors			xxx
	Accrued expenses *(Expenses payable)*			xxx
	Income received in advance *(Deferred income)*			xxx
	SARS: PAYE			xxx
	Creditors for salaries			xxx
	Creditors for wages			xxx
	Pension Fund			xxx
	Medical Fund			xxx
	Unemployment Insurance Fund			xxx
	Deposit: Rent income			xxx
				xxx

6. ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

The ratios used for sole traders are still applicable. The only difference is due to the fact that there is more than one capital account in a partnership.

The additional ratios needed are:
- The total amount earned by each partner
- The percentage return earned by each partner on his investment in the partnership
- The debt / equity ratio

Total amount earned by each partner

If a partner wishes to know what he / she has earned from the partnership in any period, this is determined by adding together his / her salary, his / her interest on capital and his / her share of the profit (or deducting his / her share of the loss).

FORMULA:

	A	**B**	**Total**
Salary	xx	xx	xxx
Interest on capital	xx	xx	xxx
Share of profit (loss)	xx	xx	xxx
Total amount earned	**xxx**	**xxx**	**xxx**

Percentage return earned by each partner on his investment in the partnership

The total amount earned by a partner is credited to his / her current account. The total earned is usually more that the total withdrawn, which results in a gradual increase in the relevant partner's equity. The current account of a partner forms part of his / her equity in the business. The sum of a partner's capital account and the credit balance in his / her current account is regarded as his / her investment in the partnership. The percentage return earned by each partner on his / her investment is calculated by expressing the total amount earned as a percentage of the investment in the partnership. The investment in the partnership on the *first day* of the relevant accounting period must be used.

If the current account of a partner shows a debit balance, this will be deducted from the credit balance on his / her capital account to calculate the investment in the partnership.

Ratio

$$\frac{\text{Total amount earned}}{\text{Average partner's equity}} \times \frac{100}{1}$$

interest on capital + salary + share of profits
capital + current account balance
(opening balance + closing balance ÷ 2)

= %

Debt - equity ratio

The debt-equity ratio is the ratio of long-term liabilities to the equity. The ratio gives an indication of the credit worthiness of a business. The higher the ratio, the lower credit worthiness, i.e. the less likely it is for the business to negotiate additional loans.

If the debt-equity ratio is high (eg 1,2 : 1), the financial position can be said to be *highly geared*. If the debt-equity ratio is low, (eg 0,3 : 1) the financial position is said to have a *low gearing*.

Ratio

Non- current liabilities	:	owner's equity
x	:	1

ACTIVITY 1

The following information was extracted from the accounting records of Zwakosi Traders (with partners G Zwane and C Nkosi) on 31 August 20.1, the end of the financial year.

INSTRUCTION

1.1 Prepare the following accounts in the general ledger:

Current account: G Zwane
Current account: C Nkosi
Drawings account: G Zwane
Drawings account: C Nkosi
Interest on capital
Salary: G Zwane
Salary: C Nkosi
Appropriation account

1.2 Prepare the current account note to the balance sheet on 31 August 20.1.

Extract from the pre-adjustment trial balance of Zwakosi Traders on 31 August 20.1

Capital: G Zwane	(1 September 20.0)	R40 000	
Capital: C Nkosi	(1 September 20.0)	20 000	
Current account: G Zwane	(1 September 20.0)	5 600	(Dr)
Current account: C Nkosi	(1 September 20.0)	6 400	(Cr)
Drawings: G Zwane		10 400	
Drawings: C Nkosi		6 500	

Additional information and adjustments:

1. The net profit for the year amounted to R25 300.

2. The partners are entitled to the following monthly salaries:
   G Zwane R800
   C Nkosi R600

3. Interest on capital at 15% pa must be brought into account.

4. The remaining profits and losses must be shared in proportion to capital balances.

ACTIVITY 1

ANSWER SHEET

1.1 GENERAL LEDGER OF ZWAKOSI TRADERS

Balance Sheet Section

Dr **Current account: G Zwane** **Cr**

20.0				20.1			
Sept 1	Balance	b/d		Aug 31	Salary: Zwane		
20.1					Interest on capital		
Aug 31	Drawings: Zwane				Balance	c/d	
	Appropriation						
Sept 1	Balance	b/d					

Dr **Current account: C Nkosi** **Cr**

20.1				20.0			
Aug 31	Drawings: Nkosi	GJ		Sept 1	Balance	b/d	
	Appropriation	GJ		20.1			
	Balance	c/d		Aug 31	Salary: Nkosi	GJ	
					Interest on capital	GJ	
				Sept 1	Balance	b/d	

Dr **Drawings: G Zwane** **Cr**

20.1				20.1			
Aug 31	Balance	b/d		Aug 31	Current: Zwane	GJ	

Dr **Drawings: C Nkosi** **Cr**

20.1				20.1			
Aug 31	Balance	b/d		Aug 31	Current: Nkosi	GJ	

Nominal accounts section

Dr **Interest on capital** **Cr**

20.1				20.1			
Aug 31	Current: Zwane	GJ		Aug 31	Appropriation	GJ	
	Current: Nkosi	GJ					

Dr **Salary: Zwane** **Cr**

20.1				20.1			
Aug 31	Current: Zwane	GJ		Aug 31	Appropriation	GJ	

Dr **Salary: Nkosi** **Cr**

20.1				20.1			
Aug 31	Current: Nkosi	GJ		Aug 31	Appropriation	GJ	

Dr **Appropriation account** **Cr**

20.1				20.1			
Aug 31	Interest on capital	GJ		Aug 31	Profit and loss	GJ	
	Salary: Zwane	GJ			(net profit)		
	Salary: Nkosi	GJ			Current: Zwane	GJ	
					Current: Nkosi	GJ	

1.2 NOTE TO THE BALANCE SHEET

Current accounts	**Zwane**	**Nkosi**	**Total**
Appropriation of net profit:			
Salaries			
Interest on capital			
Primary distribution of profit			
Final distribution of profit (loss)			
Net profit according to income statement			
Drawings during the year			
Balance (31 August 20.0)			
Balance (31 August 20.1)			

ACTIVITY 2

The information given below is an extract from the books of Sunray Traders, a partnership business with Joe and Chandler as partners.

INSTRUCTION

2.1 Prepare the capital and current account notes to the balance sheet on 28 February 20.1.

2.2 Calculate the amount earned by each partner.

Note: All workings must be shown.

Balances / totals on 28 February 20.1:

Capital: Joe	R208 000	
Capital: Chandler	184 000	
Current account: Joe (1 March 20.0)	2 500	(Cr)
Current account: Chandler (1 March 20.0)	11 200	(Dr)
Drawings: Joe	87 500	
Drawings: Chandler	91 000	

The net profit for the year, ***before*** the transactions below have been taken into account, amounted to R203 000.

The following entries must still be taken into account:

- Partner Joe increased his capital on 28 February 20.1 by contributing cash so that the proportion of his capital balance to Chandlers is 3 : 2. No entry was made for this transaction in the books. The capital of Chandler remains unchanged.

- Partner Chandler returned merchandise which was unsuitable for her personal use, with a cost price of R500, before stocktaking had been completed. The goods returned have not yet been recorded.

- The salary of R6 500 paid to partner Joe for February 20.1 was posted to the salaries and wages account by mistake and treated as a business expense. This error must be rectified.

The partnership agreement provides for the following:

1. Each partner is entitled to a salary of R6 500 per month.

2. Partners are entitled to interest at 8% pa on their capital balances on the first day of the financial year. On 1 December 20.0 the partners decided to increase the interest rate to 12% pa, with effect from that date.

3. The remaining profits and losses must be shared in proportion to the capital balances at the end of the financial year.

ACTIVITY 2

ANSWER SHEET

NOTES TO THE BALANCE SHEET ON 28 FEBRUARY 20.1			
	R	R	R
Capital account	**Joe**	**Chandler**	**Total**
Balance on 28 February 20.0			
Contribution of capital during the financial year			
Withdrawal of capital during the year			
Balance at 28 February 20.1			
Current accounts	**Joe**	**Chandler**	**Total**
Balance at 28 February 20.0			
Profit per income statement			
Salaries			
Interest on capital			
Primary division of profits			
Final division of profits			
Drawings during the year			
Balance at 28 February 20.1			

The total amount earned by each partner:			
	R	R	R
	Joe	**Chandler**	**Total**
Salary			
Interest on capital			
Share of profit (loss)			
Total amount earned			

CALCULATIONS:

ACTIVITY 3

You are provided with the post adjustment trial balance of Eastern Province Stores at the end of their accounting period.

REQUIRED

The income statement for the year ended 28 February 20.1
The balance sheet as at 28 February 20.1

Partnership agreement stipulated the following:

Partners receive interest on capital at 10% pa
The partners share the remaining profits / losses in the ratio of their capital contribution at the beginning of the year.

INFORMATION

EASTERN PROVINCE STORES			
POST ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 20.1			
	Fol	**Debit**	**Credit**
Balance sheet accounts section		**R**	**R**
Capital: Eastern	B1		120 000
Capital: Province	B2		60 000
Current account: Eastern	B3		40 000
Current account: Province	B4		28 000
Drawings: Eastern	B5	12 000	
Drawings: Province	B6	18 000	
Mortgage bond: Umgeni Bank (18% pa)	B7		50 000
Land and buildings	B8	135 000	
Vehicles	B9	40 000	
Equipment	B10	32 000	
Accumulated depreciation on vehicles	B11		24 000
Accumulated depreciation on equipment	B12		9 600
Trading stock	B13	80 000	
Debtors control	B14	15 000	
Provision for bad debts	B15		750
Creditors control	B16		18 000
Bank	B17	8 600	
Petty cash	B18	250	
Cash float	B19	200	
Fixed deposit: Elsies Bank (within 12 months)	B20	14 000	
Consumable stores on hand	B21	500	

Accrued income	B22	720	
Accrued expenses	B23		960
Prepaid expenses	B24	480	
Income received in advance	B25		400
Nominal accounts section			
Sales	N1		482 000
Cost of sales	N2	280 000	
Debtors allowances	N3	2 000	
Interest on mortgage bond	N4	9 000	
Advertising	N5	2 500	
Salaries and wages	N6	102 000	
Trading stock deficit	N7	1 100	
Provision for bad debts adjustment	N8		200
Discount received	N9		330
Depreciation (Vehicles R6 000 / Equipment R5 200)	N10	11 200	
Sundry expenses	N11	7 090	
Interest on fixed deposit	N12		1 800
Packing materials	N13	1 400	
Salary: Eastern	N14	25 000	
Salary: Province	N15	20 000	
Interest on capital	N16	18 000	
		836 040	**836 040**

ACTIVITY 3

ANSWER SHEET

EASTERN PROVINCE STORES			
INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 20.1			
	Note	**R**	**R**
Sales / Turnover			
Cost of sales			
Gross Profit			
Other operating income			
Provision for bad debts adjustment			
Discount received			
Gross operating income			
Operating expenses			
Advertising			
Salaries and wages			
Trading stock deficit			
Depreciation			
Sundry expenses			
Packing materials			
Operating profit			
Interest income	(1)		
Profit before financing cost (interest expense)			
Interest expense	(2)		
Net profit for the year	(8)		

EASTERN PROVINCE STORES			
BALANCE SHEET AT 28 FEBRUARY 20.1			
	Notes	**R**	**R**
ASSETS			
Non-current assets			
Tangible assets	(3)		
Financial assets			
Fixed deposit			
Current assets			
Inventory	(4)		
Trade and other receivables	(5)		
Cash and cash equivalents	(6)		
Total assets			
EQUITY AND LIABILITIES			
Owners' equity			
Capital	(7)		
Current accounts	(8)		
Non-current liabilities			
Mortgage bond			
Current liabilities			
Trade and other payables	(9)		
Total equity and liabilities			

EASTER PROVINCE STORES				
NOTES TO THE FINANCIAL STATEMENTS				
		R	**R**	**R**
1.	**Interest income**			
	from investments			
2.	**Interest expense (finance cost)**			
	on mortgage bond			

		R	R	R	R
3.	**Tangible assets**	**Land and buildings**	**Vehicles**	**Equipment**	**Total**
	Cost price				
	Accumulated depreciation				
	Carrying value on 28 February 20.0				
	Movements				
	Additions at cost				
	Disposals at carrying value				
	Depreciation for the year				
	Carrying value on 28 February 20.1				
	Cost price				
	Accumulated depreciation				
4.	**Inventory**				
	Trading stock				
	Consumable stores on hand				
5.	**Trade and other receivables**				
	Trade debtors				
	Provision for bad debts				
	Net trade debtors				
	Prepaid expenses				
	Accrued income				
6.	**Cash and cash equivalents**				
	Fixed deposit				
	Bank				
	Cash float				
	Petty cash				

		R	R	R	R
7.	**Capital**		**Eastern**	**Province**	**Total**
	Balance at 28 February 20.0				
	Balance at 28 February 20.1				
8.	**Current accounts**		**Eastern**	**Province**	**Total**
	Balance (28 February 20.0)				
	Profit per income statement				
	Salaries				
	Interest on capital				
	Primary distribution of profit				
	Final distribution of profit				
	Drawings for the year				
	Balance (28 February 20.1)				
Alternative method					
	Current accounts		**Eastern**	**Province**	**Total**
	Appropriation of net profit				
	Salaries				
	Interest on capital				
	Primary distribution of profit				
	Final distribution of profit (loss)				
	Net profit according to income statement				
	Drawings during the year				
	Balance (28 February 20.0)				
	Balance (28 February 20.1)				
9.	**Trade and other payables**				
	Trade creditors				
	Accrued expenses				
	Income received in advance				

ACTIVITY 4

You are provided with the pre-adjustment trial balance of Daylight Security Systems, together with additional information.

INSTRUCTION

4.1 Prepare the income statement for the year ended 28 February 20.1

4.2 Prepare the balance sheet with the notes on 28 February 20.1

4.3 Calculate the following:
The return on partners' equity
The debt : equity ratio

GENERAL INFORMATION ON THE BUSINESS

1. The business buys and sells security systems, at a mark-up of 50% on cost.

2. The business also provides a service by installing the systems (i.e. the burglar alarms) for which it charges installation fees. This income is credited to the *"Installation fee income"* account.

3. The business is owned by two partners, D Day and L Light.

INFORMATION

DAYLIGHT SECURITY SYSTEMS		
PRE-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 20.1		
	Debit	**Credit**
	R	**R**
Balance sheet accounts section		
Capital: Day		140 000
Capital: Light		120 000
Current account: Day (1 March 20.0)	18 600	
Current account: Light (1 March 20.0)		3 500
Drawings: Light	74 000	
Land and buildings	190 000	
Vehicles	70 000	
Accumulated depreciation on vehicles		56 000
Equipment	72 000	
Accumulated depreciation on equipment		28 000
Mortgage bond: IOU Bank		80 000
Fixed deposit: Savbank	7 000	
Debtors control	44 300	
Provision for bad debts		2 705
Creditors control		32 800
Bank	7 900	
Petty cash	500	
Trading stock	97 000	
Consumable goods on hand: packing material (1 March 20.0)	715	
SARS (PAYE)		3 010
Pension fund		2 770
Nominal accounts section		
Sales		780 000
Cost of sales	520 000	
Installation fee income		118 000
Rent income		14 850
Salaries and wages	192 400	
Repairs	18 800	
Packing material	12 300	
Bad debts	1 400	
Interest on mortgage bond	15 000	
Insurance	4 920	
Delivery expenses	4 000	
Sundry expenses	11 400	
Depreciation	19 400	
	1 381 635	**1 381 635**

Adjustments and additional information

1. Savbank owes interest of R900 on the fixed deposit. This amount was not withdrawn, but was re-invested in the fixed deposit on 28 February 20.1. No entry has yet been made.

2. The following items were withdrawn from stock during February and not yet recorded: *Note:* No installation charges were levied on these items.

	SP	CP
A burglar alarm was installed on the office premises	R3 660	R2 440
Partner D Day took a security light for use at home	810	540

3. The bookkeeper has already provided the following depreciation for the year ended 28 February 20.1: depreciation on vehicles R11 400
   depreciation on equipment R 8 000
   However she over-stated the depreciation on equipment by R800.

4. The tenant owes rent for one month. He has, however, paid for repairs to the roof amounting to R670. Repairs are the responsibility of Daylight Security Systems, so the tenant will deduct R670 from his next payment.

5. The bookkeeper forgot to post the wages journal for the week ended 28 February 20.1 to the general ledger. The following totals appeared, amongst others, in the wages journal:

Net wages	R5 600
PAYE deductions	940
Employer's contribution to pension fund	336

   (Daylight Security Systems contribute R2,00 to the pension fund for every R1,00 deducted from wages. Apart from PAYE and the pension fund, there are no other deductions or contributions).

6. A dissatisfied customer complained that the alarm system installed by Daylight Security Systems was not working properly. The customer was charged R750 for the alarm plus R450 installation fees, but has not yet paid. It was agreed to reverse the full amount charged. The defective alarm was returned to the suppliers on 28 Februay 20.1.

7. An account was received from Speed Delivery Services for the following but no entries have been made:

   Delivery of burglar alarms from the suppliers to Daylight Security Systems, R330.
   Delivery of burglar alarms to customers in other provinces, R520.

8. A cheque dated 31 March 20.1 was recorded in the cash payments journal for February. This was in respect of an amount of R9 300 charged by Yebo Handyman for:

Building a new storeroom, R9 000.
Repairs to windows, R300.

Both these amounts have been debited to the repairs account.

9. Burglar alarms costing R3 600 are to be scrapped as they are out-of-date and cannot be sold.

10. An amount of R290 was entered in the cash receipts journal for February and posted to debtors control account. However, this amount was received from a debtor whose account has previously been written off as bad.

11. Debtors and creditors must be adjusted for the following:

A debtor with a credit balance of R180 is to be transferred to the creditors ledger.
A creditor with a debit balance of R205 is to be transferred to the debtors ledger.

12. The provision for bad debts is to be reduced by R125.

13. The mortgage loan was reduced by R25 000 on 31 December 20.0 and will be reduced by a further R20 000 on 31 December 20.1. The interest rate is 17% pa. Provide for any interest owing to the IOU Bank.

14. Insurance includes an annual premium of R3 780 which has been paid for the period 1 July 20.0 to 30 June 20.1.

15. The bookkeeper forgot to adjust for the consumable goods on hand at the beginning of the year. A physical count revealed that packing material of R460 was on hand on 28 February 20.1.

16. The partnership agreement provided for the following:

Annual salary to L Light, R60 000.

Interest on capital at 10% pa.
Partner D Day increased his capital contribution on 1 March 20.0 by R20 000.
Partner L Light decreased his capital contribution on 1 March 20.0 R12 000.

Remaining profits or losses are shared equally.

ACTIVITY 4

ANSWER SHEET

4.1

DAYLIGHT SECURITY SYSTEMS			
INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 20.1			
	Note	**R**	**R**
Sales			
Cost of sales			
Gross profit			
Other operating income			
Installation fee income			
Rent income			
Bad debts recovered			
Provision for bad debts adjustment			
Gross operating income			
Operating expenses			
Salaries and wages			
Repairs			
Packing material			
Bad debts			
Insurance			
Delivery expenses			
Sundry expenses			
Depreciation			
Trading stock written off			
Operating profit			
Interest income	(1)		
Profit before interest expense			
Interest expense	(2)		
Net profit for the year			

4.2

DAYLIGHT SECURITY SYSTEMS			
BALANCE SHEET ON 28 FEBRUARY 20.1			
	Notes	**R**	**R**
ASSETS			
Non-current assets			
Tangible assets	(3)		
Financial assets			
Fixed deposit			
Current assets			
Inventory	(4)		
Trade and other receivables	(5)		
Cash and cash equivalents	(6)		
Total assets			
EQUITY AND LIABILITIES			
Owners' equity			
Capital	(7)		
Current accounts	(8)		
Non-current liabilities			
Mortgage bond			
Current liabilities			
Trade and other payables	(9)		
Shortterm loan			
Total equity and liabilities			

DAYLIGHT SECURITY SYSTEMS			
NOTES TO THE FINANCIAL STATEMENTS	**R**	**R**	**R**
1. Interest income			
from investments			
2. Interest expense (finance cost)			
on mortgage bond			

		R	R	R	R
3.	**Tangible assets**	**Land and buildings**	**Vehicles**	**Equipment**	**Total**
	Cost price				
	Accumulated depreciation				
	Carrying value on 28 February 20.0				
	Movements				
	Additions at cost				
	Disposals at carrying value				
	Depreciation for the year				
	Carrying value on 28 February 20.1				
	Cost price				
	Accumulated depreciation				
4.	**Inventory**				
	Trading stock				
	Consumable stores on hand				
5.	**Trade and other receivables**				
	Trade debtors				
	Provision for bad debts				
	Net trade debtors				
	Prepaid expenses				
	Accrued income				
6.	**Cash and cash equivalents**				
	Bank				
	Petty cash				
7.	**Capital**		**D Day**	**L Light**	**Total**
	Balance at 28 February 20.0				
	Contribution of capital during the financial year				
	Withdrawal of capital during the fianancial year				
	Balance at 28 February 20.1				

		R	R	R
8. Current accounts		**D Day**	**L Light**	**Total**
Appropriation of net profit				
Salaries				
Interest on capital				
Primary distribution of profit				
Final distribution of profit				
Net profit according to income statement				
Drawings during the year				
Balance (28 February 20.0)				
Balance (28 February 20.1)				
9. Trade and other payables				
Trade creditors				
Accrued expenses				
Creditors for wages				
SARS (PAYE)				
Pension fund				

4.3

The return on partners' equity	
Net profit x 100	
Average partners' equity 1	
Debt : Equity ratio	
Non current liabilities : Equity	

PARTNERSHIPS

ACTIVITY 1

SOLUTION

GENERAL LEDGER OF ZWAKOSI TRADERS

Balance Sheet Section

Dr **Current account: G Zwane** **Cr**

20.0				20.1			
Sept 1	Balance	b/d	5 600	Aug 31	Salary: Zwane		9 600
20.1					Interest on capital		6 000
Aug 31	Drawings: Zwane		10 400		Balance	c/d	733
	Appropriation		333				
			16 333				16 333
Sept 1	Balance	b/d	733				

Dr **Current account: C Nkosi** **Cr**

20.1				20.0			
Aug 31	Drawings: Nkosi	GJ	6 500	Sept 1	Balance	b/d	6 400
	Appropriation	GJ	167	20.1			
	Balance	c/d	9 933	Aug 31	Salary: Nkosi	GJ	7 200
					Interest on capital	GJ	3 000
			16 600				16 600
				Sept 1	Balance	b/d	9 933

Dr **Drawings: G Zwane** **Cr**

20.1				20.1			
Aug 31	Balance	b/d	10 400	Aug 31	Current acc: Zwane	GJ	10 400

Dr **Drawings: C Nkosi** **Cr**

20.1				20.1			
Aug 31	Balance	b/d	6 500	Aug 31	Current acc: Nkosi	GJ	6 500

Nominal accounts section

Dr **Interest on capital** **Cr**

20.1				20.1			
Aug 31	Current acc: Zwane	GJ	6 000	Aug 31	Appropriation	GJ	9 000
	Current acc: Nkosi	GJ	3 000				
			9 000				9 000

Dr **Salary: Zwane** **Cr**

20.1				20.1			
Aug 31	Current acc: Zwane	GJ	9 600	Aug 31	Appropriation	GJ	9 600

Dr **Salary: Nkosi** **Cr**

20.1				20.1			
Aug 31	Current acc: Nkosi	GJ	7 200	Aug 31	Appropriation	GJ	7 200

Dr **Appropriation account** **Cr**

20.1				20.1			
Aug 31	Interest on capital	GJ	9 000	Aug 31	Profit and loss	GJ	25 300
	Salary: Zwane	GJ	9 600		(net profit)		
	Salary: Nkosi	GJ	7 200		Current acc: Zwane	GJ	333
					Current acc: Nkosi	GJ	167
			25 800				25 800

1.2 NOTE TO THE BALANCE SHEET

Current accounts	Zwane	Nkosi	Total
Appropriation of net profit:			
Salaries	9 600	7 200	16 800
Interest on capital	6 000	3 000	9 000
Primary distribution of profit	15 600	10 200	25 800
Final distribution of profit (loss)	(333)	(167)	(500)
Net profit according to income statement	15 267	10 033	25 300
Drawings during the year	(10 400)	(6 500)	(16 900)
	4 867	3 533	8 400
Balance (31 August 20.0)	(5 600)	6 400	800
Balance (31 August 20.1)	(733)	9 933	**9 200**

Calculations

Interest on capital		
Zwane:	R40 000 x 15/100	= R6 000
Nkosi:	R20 000 x 15/100	= R3 000

Salaries		
Zwane:	R800 x 12 months	= R9 600
Nkosi:	R600 x 12 months	= R7 200

Share of remaining loss			
Profit / loss share:	Zwane : Nkosi		
	4 : 2		(according to capital contribution)
		R	
Remaining loss:	Net profit:	25 300	
	Salary: Zwane	(9 600)	
	Salary: Nkosi	(7 200)	
	Interest on capital	(9 000)	
	Remaining loss	(500)	
Proportion: Zwane	R500 x 4/6	= R333	
Nkosi	R500 x 2/6	= R167	

ACTIVITY 2

SOLUTION

NOTES TO THE BALANCE SHEET ON 28 FEBRUARY 20.1			
	R	R	R
Capital account	**Joe**	**Chandler**	**Total**
Balance on 28 February 20.0	208 000	184 000	392 000
Contribution of capital during the financial year	68 000	-	68 000
Withdrawal of capital during the year	-	-	-
Balance at 28 February 20.1	**276 000**	**184 000**	**460 000**
Current accounts	**Joe**	**Chandler**	**Total**
Balance at 28 February 20.0	2 500	(11 200)	(8 700)
Profit per income statement	107 652	101 848	209 500
Salaries	78 000	78 000	156 000
Interest on capital	18 720	16 560	35 280
Primary division of profits	96 720	94 560	191 280
Final division of profits	10 932	7 288	18 220
Drawings during the year	(94 000)	(90 500)	(184 500)
Balance at 28 February 20.1	**16 152**	**148**	**16 300**

The total amount earned by each partner:			
	R	R	R
	Joe	**Chandler**	**Total**
Salary	78 000	78 000	156 000
Interest on capital	18 720	16 560	35 280
Share of profit (loss)	10 932	7 288	18 220
Total amount earned	**107 652**	**101 848**	**209 500**

CALCULATIONS

Calculate correct net profit

	R
Incorrect net profit	203 000
Plus: Salary: Joe (error)	6 500
Correct net profit	**209 500**

Calculate capital contribution partner: Joe					
New ratio:	3 : 2				
	R184 000	= 2/5			
	x	= 3/5			
	x	= **R276 000**			
Capital contribution:		R276 000	-	R208 000	**= R68 000**

Drawings						
Joe:	R87 500	+	R 6 500	**= R94 000**	(balance + salaries)	
Chandler:	R91 000	-	R500	**= R90 500**	(balance - goods returned)	
Salary of partners						
Joe and Chandler:	R6 500	x	12 months	=	R78 000 each	
Interest on Capital						

Capital: Joe

	Mrch 1	Balance	208 000
	Feb 28	Bank	68 000
			276 000

Capital: Chandler

	Mrch 1	Balance	184 000

Joe:	R208 000	x	8%	x	9/12	(Mar - Nov)	R12 480
	R208 000	x	12%	x	3/12	(Dec - Feb)	6 240
							R18 720
Chandler:	R184 000	x	8%	x	9/12	(Mar - Nov)	R11 040
	R184 000	x	12%	x	3/12	(Dec - Feb)	5 520
							R16 560

Share of Profits:	Net profit - salaries - interest on capital
	R209 500 - R78 000 - R78 000 - R35 280
	= R18 220 (remaining profit)
Joe:	R18 220 x 3/5 = R10 932
Chandler:	R18 220 x 2/5 = R 7 288

Appropriation account			
Salary: Joe	78 000	Net profit	209 500
Salary: Chandler	78 000	(R203 000 + R6 500)	
Interest on capital	35 280		
(R18 720 + R16 560)			
Current acc: Joe (3/5)	10 932		
Current acc: Chandler (2/5)	7 288		
	209 500		209 500

ACTIVITY 3

SOLUTION

EASTERN PROVINCE STORES			
INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 20.1			
	Note	**R**	**R**
Sales / Turnover			480 000
Cost of sales			(280 000)
Gross Profit			200 000
Other operating income			530
Provision for bad debts adjustment		200	
Discount received		330	
Gross operating income			200 530
Operating expenses			(125 290)
Advertising		2 500	
Salaries and wages		102 000	
Trading stock deficit		1 100	
Depreciation		11 200	
Sundry expenses		7 090	
Packing materials		1 400	
Operating profit			75 240
Interest income	(1)		1 800
Profit before financing cost (interest expense)			77 040
Interest expense	(2)		(9 000)
Net profit for the year	(8)		**68 040**

EASTERN PROVINCE STORES			
BALANCE SHEET AT 28 FEBRUARY 20.1			
	Notes	**R**	**R**
ASSETS			
Non-current assets			173 400
Tangible assets	(3)	173 400	
Financial assets			
Fixed deposit		-	
Current assets			119 000
Inventory	(4)	80 500	
Trade and other receivables	(5)	15 450	
Cash and cash equivalents	(6)	23 050	
Total assets			**292 400**
EQUITY AND LIABILITIES			
Owners' equity			223 040
Capital	(7)	180 000	
Current accounts	(8)	43 040	
Non-current liabilities			50 000
Mortgage bond		50 000	
Current liabilities			19 360
Trade and other payables	(9)	19 360	
Total equity and liabilities			**292 400**

EASTER PROVINCE STORES				
NOTES TO THE FINANCIAL STATEMENTS				
		R	**R**	**R**
1.	**Interest income**			
	from investments			**1 800**
2.	**Interest expense (finance cost)**			
	on mortgage bond			**9 000**

		R	R	R	R
3.	**Tangible assets**	**Land and buildings**	**Vehicles**	**Equipment**	**Total**
	Cost price	135 000	40 000	32 000	207 000
	Accumulated depreciation	-	(18 000)	(18 000)	(22 400)
	Carrying value on 28 February 20.0	135 000	22 000	27 600	184 600
	Movements				
	Additions at cost	135 000	22 000	27 600	184 600
	Disposals at carrying value	-	-	-	-
	Depreciation for the year	-	(6 000)	(5 200)	(11 200)
	Carrying value on 28 February 20.1	135 000	16 000	22 400	**173 400**
	Cost price	135 000	40 000	32 000	207 400
	Accumulated depreciation	-	(24 000)	(9 600)	(33 600)
4.	**Inventory**				
	Trading stock				80 000
	Consumable stores on hand				500
					80 500
5.	**Trade and other receivables**				
	Trade debtors				15 000
	Provision for bad debts				(750)
	Net trade debtors				14 250
	Prepaid expenses				480
	Accrued income				720
					15 450
6.	**Cash and cash equivalents**				
	Fixed deposit				14 000
	Bank				6 600
	Cash float				200
	Petty cash				250
					23 050

		R	R	R	R
7.	**Capital**		**Eastern**	**Province**	**Total**
	Balance at 28 February 20.0		120 000	60 000	180 000
	Balance at 28 February 20.1		120 000	60 000	**180 000**
8.	**Current accounts**		**Eastern**	**Province**	**Total**
	Balance (28 February 20.0)		3 000	2 000	5 000
	Profit per income statement		40 360	27 680	68 040
	Salaries		25 000	20 000	45 000
	Interest on capital		12 000	6 000	18 000
	Primary distribution of profit		37 000	26 000	63 000
	Final distribution of profit		3 360	1 680	5 040
	Drawings for the year		(12 000)	(18 000)	(30 000)
	Balance (28 February 20.1)		31 360	11 680	**43 040**
Alternative method					
	Current accounts		**Eastern**	**Province**	**Total**
	Appropriation of net profit				
	Salaries		25 000	20 000	45 000
	Interest on capital		12 000	6 000	18 000
	Primary distribution of profit		37 000	26 000	63 000
	Final distribution of profit		3 360	1 680	5 040
	Net profit according to income statement		40 360	27 680	68 040
	Drawings during the year		(12 000)	(18 000)	(30 000)
			28 360	9 680	38 040
	Balance (28 February 20.0)		3 000	2 000	5 000
	Balance (28 February 20.1)		31 360	11 680	**43 040**
9.	**Trade and other payables**				
	Trade creditors				18 000
	Accrued expenses				960
	Income received in advance				400
					19 360

ACTIVITY 4

SOLUTION

4.1

DAYLIGHT SECURITY SYSTEMS			
INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 20.1			
	Note	**R**	**R**
Sales (R780 000 - R750)			779 250
Cost of sales (R520 000 - R500)			(519 500)
Gross profit			259 750
Other operating income			134 165
Installation fee income (R118 000 - R450)		117 550	
Rent income (R14 850 + R670 + R680)		16 200	
Bad debts recovered		290	
Provision for bad debts adjustment (R2 705 - R2 580)		125	
Gross operating income			393 915
Operating expenses			(265 649)
Salaries and wages (R192 400 + R7 044 [R5 600 + R940 + R168 + R336])		199 444	
Repairs (R18 800 + R670 - R9 000)		10 470	
Packing material (R12 300 + R715 - R460)		12 555	
Bad debts		1 400	
Insurance (R4 920 - R1 260)		3 660	
Delivery expenses (R4 000 + R520)		4 520	
Sundry expenses		11 400	
Depreciation (R19 400 - R800)		18 600	
Trading stock written off		3 600	
Operating profit			128 266
Interest income	(1)		900
Profit before interest expense			129 166
Interest expense (R15 000 + R2 142)	(2)		(17 142)
Net profit for the year			**112 024**

4.2

DAYLIGHT SECURITY SYSTEMS			
BALANCE SHEET ON 28 FEBRUARY 20.1			
	Notes	**R**	**R**
ASSETS			
Non-current assets			268 140
Tangible assets	(3)	260 240	
Financial assets			
Fixed deposit		7 900	
Current assets			152 045
Inventory	(4)	91 210	
Trade and other receivables	(5)	43 135	
Cash and cash equivalents	(6)	17 700	
Total assets			**420 185**
EQUITY AND LIABILITIES			
Owners' equity			282 384
Capital	(7)	260 000	
Current accounts	(8)	22 384	
Non-current liabilities			60 000
Mortgage loan		60 000	
Current liabilities			77 801
Trade and other payables	(9)	57 801	
Shortterm loan		20 000	
Total equity and liabilities			**420 185**

DAYLIGHT SECURITY SYSTEMS			
NOTES TO THE FINANCIAL STATEMENTS			
			R
1.	**Interest income**		
	from investments		**900**
2.	**Interest expense (finance cost)**		
	on mortgage bond	(R15 000 + R2 142)	**17 142**

		R	R	R	R
3.	**Tangible assets**	**Land and buildings**	**Vehicles**	**Equipment**	**Total**
	Cost price	190 000	70 000	72 000	332 000
	Accumulated depreciation	-	(44 600)	(20 000)	(64 600)
	Carrying value on 28 February 20.0	190 000	25 400	52 000	267 400
	Movements				
	Additions at cost	9 000	-	2 440	11 440
	Disposals at carrying value	-	-	-	-
	Depreciation for the year	-	(11 400)	(7 200)	(18 600)
	Carrying value on 28 February 20.1	199 000	14 000	47 240	**260 240**
	Cost price	199 000	70 000	74 440	343 440
	Accumulated depreciation	-	(56 000)	(27 200)	(83 200)
4.	**Inventory**				
	Trading stock (R97 000 + R500 + R330 - R2 440 - R540 - R500 - R3 600)				90 750
	Comsumable stores on hand (R715 - R715 + R460)				460
					91 210
5.	**Trade and other receivables**				
	Trade debtors (R44 300 + R290 + R180 + R205 - R750 - R450)				43 775
	Provision for bad debts (R2 705 - R125)				(2 580)
	Net trade debtors				41 195
	Prepaid expenses				1 260
	Accrued income				680
					43 135
6.	**Cash and cash equivalents**				
	Bank (R7 900 + R9 300 post dated cheque)				17 200
	Petty cash				500
					17 700
7.	**Capital**		**D Day**	**L Light**	**Total**
	Balance at 28 February 20.0		120 000	132 000	252 000
	Contribution of capital during the financial year		20 000	-	20 000
	Withdrawal of capital during the fianancial year			(12 000)	(12 000)
	Balance at 28 February 20.1		140 000	120 000	**260 000**

		R	R	R
8.	**Current accounts**	**D Day**	**L Light**	**Total**
	Balance at 28 February 20.0	(18 600)	3 500	(15 100)
	Profit per the income statement	27 012	85 012	112 024
	Salaries	-	60 000	60 000
	Interest on capital	14 000	12 000	26 000
	Primary division of profits	14 000	72 000	86 000
	Final division of profits	13 012	13 012	26 024
	Drawings during the year	(540)	(74 000)	(74 540)
	Balance at 28 February 20.1	**7 872**	**14 512**	**22 384**
9.	**Trade and other payables**			
	Trade creditors (R32 800 + R330 + R520 + R180 + R205 - R500 + R9 300 post dated cheque)			42 835
	Accrued expenses			2 142
	Creditors for wages			5 600
	SARS (PAYE) (R3 010 + R940)			3 950
	Pension fund (R2 770 + R336 + R168)			3 274
				57 801

4.3

The return on partners' equity	
Net profit x 100	Capital + Current acc balance 28 Feb 20.1 = R282 384
Average partners' equity 1	Capital + Current acc balance 28 Feb 20.0 = (R15 100)
	Average equity: R282 384 - (R15 100) ÷ 2
112 024 x 100	= R267 284
267 284 1 = **41,9%**	
Debt : Equity ratio	
Non- current liabilities : Equity	Non current liabilities: Mortgage bond R80 000 (R60 000 + R20 000)
	Equity according to balance sheet on 28 Feb 20.1 R282 384
R80 000 : R282 384	
0,28 : 1	

CALCULATIONS:

Trading stock

Balance	97 000	Equipment	2 440
Cost of sales	500	Drawings: D	540
C control	330	C control	500
		T/s written off	3 600
		Balance	90 750
	97 830		97 830
Balance	90 750		

Debtors control

Balance	44 300	D allowances	750
Bad debts recovered	290	Instal fee inc	450
C control	180	Balance	43 775
C control	205		
	44 975		44 975
Balance	43 775		

Equipment

Balance	72 000		
T/stock	2 440		
	74 440		

Creditors control

T/stock	500	Balance	32 800
Balance	33 535	T/stock	330
		Delivery exp	520
		D control	180
		D control	205
	34 035		34 035
		Balance	33 535

Rent income

		Balance	14 850
		Repairs	670
		Acc income	680
			16 200

Mortgage bond: IOU Bank

Bank	25 000	Balance	105 000
Balance	80 000		
	105 000		105 000
		Balance	80 000

Interest on loan:

$$\frac{105\,000}{1} \times \frac{17}{100} \times \frac{10}{12} = 14\,875$$

$$\frac{80\,000}{1} \times \frac{17}{100} \times \frac{2}{12} = 2\,267^{*}$$ [nearest R1]

17 142