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ACCOUNTING

STUDY GUIDE

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SPORT CLUBS

1. INTRODUCTION

- A club trades as a non-profit organisation and renders a service to its' members. The income is used to upgrade and maintain the facilities used by the members.
- The difference between the income and expenditure statements is not profit/loss, but terms surplus/shortfall are applied.

2. LEDGER ACCOUNTS

2.1 Membership fees

- The main source of income for a club is membership fees.
- A membership fee is a fixed amount determined by the club and can be paid monthly, quarterly or annually.
- Membership fees are regarded income for a club.

MEMBERSHIP FEES

2004 Jan. 1	Accrued income	(1)	800	2004 Jan. 1	Income received in advance	(1)	200
Dec. 31	Income received in advance*	(5)	*300	Dec. 31	Bank (2003) R700 Bank (2004) R3 000 Bank (2005)* R300	(2)	4 000
	Bank (refunds)	(6)	150		Membership fees written off	(3)	100
	Income and expenditure	(7)	3 250		Accrued income	(4)	200
			4 500				**4 500**

(1) Reversal entries on the first day of the financial year:
Accrued income (previous year)
Income received in advance (previous year)
(2) Membership fees received in the bank account during the year.
Enter the amount separately if given as such, or calculate as one amount if the bank account is the unknown amount.
(3) Membership fees written off is calculated by comparing the accrued income at the beginning of the year (R800) with the receipts for the current year (R700)
(General journal entry).
(4) Accrued income for the current year.
(General journal entry)
(5) Income received in advance (for the next year) is the same amount as *Bank 2005.
(General journal entry)
(6) Refunds made to members or cheques received from memberships cancelled.
(7) Membership fees account is closed off to the Income and Expenditure account at the end of the year. If number of members is given, the number of members is multiplied by their annual membership fees (for example 65 members x R50 p.a. = R3250).

2.2 Entrance fees

- An entrance fee is a single payment made by a new member when joining the club.
- Entrance fees are recorded as income and closed off to the Income and Expenditure account.
- Entrance fees must **not** be capitalised but must be included in their entirety in the Income and Expenditure Statement.

ENTRANCE FEES

2004 Dec. 31	Income and Expenditure		2 000	2004 Dec. 31	Bank		2 000
			2 000				**2 000**

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2.3 Capital Fund account

- The Capital Fund account replaces the Capital account, as no capital is contributed.
- The Capital Fund account is a Balance Sheet account.

CAPITAL FUND ACCOUNT

				2004 Jan. 1	Balance	b/d (1)	20 000
				Dec. 31	Income and expenditure	(2)	6 000

(1) At the beginning of the financial year the balance of the previous year is brought down.
(2) The surplus for the current year is credited to the Capital Fund account at the end of the financial year.

2.4 Refreshments

- Refreshments are brought for resale at a profit.

REFRESHMENTS

2004 Jan. 1	Stock of refreshments	(1)	5 000	2004 Dec. 31	Bank (sales)	(4)	8 000
Dec. 31	Bank (purchases)	(2)	2 000		Debtors control (sales)	(5)	6 000
	Creditors control (purchases)	(3)	2 500		Stock of refreshments	(6)	1 500
	Profit on sale of refreshments	(7)	6 000				
			15 500				**15 500**

(1) The stock of refreshments at the **beginning** of the financial year.
(2) Stock purchased for cash.
(3) Stock purchased from creditors on credit.
(4) Refreshments sold for cash.
(5) Refreshments sold to debtors on credit.
(6) Final stock at the **end** of the current financial year.
(7) Profit on sale of refreshments (balance of the account).

2.5 Affiliation fees

- Affiliation fees are paid by the club to belong to an official body of organised sport.
- Affiliation fees are recorded as an expense and closed off to the Income and Expenditure account.

2.6 Honorarium

- A honorarium is an amount paid to the secretary or treasurer as a token of appreciation.
- A honorarium is recorded as an expense and closed off to the Income and Expenditure account.

2.7 Income and Expenditure account

- The Income and Expenditure account replaces the Profit and Loss account of a trading business.
- The surplus (income exceeding expenditure) or shortfall (expenses exceeding income) is transferred to the Capital Fund account.

3. STATEMENT OF RECEIPTS AND PAYMENTS

- The totals of the Analysis columns of the Cash journals are drawn up as a summary in the Statement of Receipts and Payments.
- The difference between receipts and income:
  - **Receipts**
    All cash transactions (money actually received).
  - **Income**
    Amounts received or receivable which are applicable to the accounting period. (Includes accrued income and amounts received in advance).
  - All amounts received are receipts but not necessarily income.

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- Differences between payments and expenses:
  - **Payments**
    All cash transactions (money actually paid).
  - **Expenses**
    Amounts paid or payable which are applicable to the accounting period.
    (Includes accrued expenses and prepaid amounts).
  - All amounts paid are payments but not necessarily expenditure.
- Statement of Receipts and Payments can be prepared in two ways:
  - vertical form
  - T-form
- It should contain the following information:
  - All money received
  - Less all payments
  - Add opening balances of bank accounts at beginning of accounting period
  - Equals: final balance of bank accounts at the end of the accounting period.

Vertical Form

Statement of Receipts and Payments for the year ended …..

	Notes	R	R
Receipts			5 350
Membership fees		1 700	
Entrance fees		100	
Donation		300	
Sale on refreshments		3 200	
Interest on savings account		50	
Etc.			
Payments			(3 400)
Wages		1 800	
Purchases of refreshments		900	
Repairs		120	
Equipment		300	
Honorarium		200	
Bank charges		80	
Etc.			
Surplus (Shortfall) for the year			1 950
Opening Balances:			3 600
Bank		3 000	
Savings account		500	
Petty cash		100	
Closing Balances:			**5 550
Bank		4 900	
Savings Account		* 550	
Petty cash		100	

T-Form

Statement of Receipts and Payments

Receipts			Payments		
Balance on 1 January		3 600	Purchases of Refreshments		900
Bank	3 000		Wages		1 800
Savings account	500		Repairs		120
Petty cash	100		Equipment		300
Membership fees		1 700	Honorarium		200
Entrance fees		100	Bank charges		80
Donation		300	Etc.		
Sale of refreshments		3 200	Balance on 31 December		5 550
Interest on savings account		50	Bank	4 900	
Etc.			Savings account	* 550	
			Petty cash	100	
		8 950			8 950

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* Add the R50 interest to the opening balance of R500 = closing balance of R550.
** Receipts – payments + opening balance = closing balance.

• ***Note:***
- If the Bank account is in "overdraft" the opening balance will be shown on the Payment side and the final balance (if overdrawn) on the Receipt side.
- Receipts are amounts *actually* received.
- Payments are amounts *actually* paid.
- Interest on the Savings Account must be shown as a receipt.
- Add any interest to the balance of the Savings account at the end of the accounting period.

4. FINANCIAL STATEMENTS

The financial statements of a club consist of the following:

- Income and Expenditure statement.
- Balance Sheet.

4.1 Format of Income and Expenditure Statement

	Notes	R	R
Income			xxxxx
Income from membership fees		xxxx	
Profit on sale of refreshments		xxxx	
Entrance fees		xxxx	
Donation		xxxx	
Etc.		xxxx	
Expenses			(xxxx)
Bank charges		xxxx	
Membership fees written off		xxxx	
Depreciation		xxxx	
Water and electricity		xxxx	
Honorarium		xxxx	
Affiliation fees		xxxx	
Surplus / (Shortfall) from general activities			Xxxxx
Interest income	1		Xx
Surplus (Shortfall) before interest expense			Xxxxx
Interest expense / Finance cost	2		(xx)
Net surplus (shortfall) for the year	7		Xxxxx

4.2 Format of Balance Sheet

	Notes		
ASSETS			
NON-CURRENT ASSETS			xxxxx
Fixed assets / Tangible assets / Property / Plant / Equipment	3	xxxx	
Financial assets			
Fixed deposits (maturation period longer than 12 months)		xxxx	
CURRENT ASSETS			xxxxx
Inventories	4	xxxx	
Receivables (debtors)	5	xxxx	
Cash and cash equivalents	6	xxxx	
TOTAL ASSETS			**XXXXX**

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EQUITY AND LIABILITIES			
Capital fund/Accumulated fund	7		xxxxx
NON-CURRENT LIABILITIES			xxxxx
Mortgage bond (maturation period longer than 12 months)		xxxxx	
CURRENT LIABILITIES			xxxxx
Payable amounts (creditors)	8	xxxx	
Bank overdraft		xxxx	
Short-term loans		xxxx	
TOTAL EQUITY AND LIABILITIES			**XXXX**

NOTES TO FINANCIAL STATEMENTS

1. Interest income / Investment income				
From investments				Xxxx
From current account				Xxxx
				Xxxx
2. Interest expense / Finance costs				
On mortgage bond				Xxxx
On overdraft				Xxxx
				Xxxx
3. Fixed Assets / Tangible assets /	**Land and Buildings**	**Vehicles**	**Equip-ment**	**Total**
Cost	xxxx	xxxx	xxxx	Xxxxx
Accumulated depreciation		(xx)	(xx)	(xxx)
Carrying value end of previous year	Xxxx	xxxx	xxxx	Xxxxx
Movement				
Additions at cost	xxxx	xxxx	xxxx	Xxxx
Disposals at carrying value		(xx)	(xx)	(xx)
Depreciation for the year		(xx)	(xx)	(xx)
Carrying value end of current year **	xxxx	xxxx	xxxx	Xxxx
Cost				
Accumulated Depreciation		(xx)	(xx)	(xx)
**	Xxxxx	xxxxx	xxxxx	Xxxxx
4. Inventories				
Stock of refreshments				Xxxx
Stock of tennis balls				Xxxx
Consumable stores (including stationary)				Xxxx
Other stock (club badges, etc.)				Xxxx
				Xxxx
5. Receivables (debtors)				
Debtors for refreshments				Xxxx
Prepaid expenses				Xxxx
Accrued income				Xxxx
Deposit for water and electricity				Xxxx

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	Xxxx
6. Cash and cash equivalents	
Fixed deposits (maturing in 12 months)	Xxxx
Savings account	Xxxx
Bank	Xxxx
Cash float	Xxxx
Petty cash	Xxxx
	xxxx

7. Capital Fund / Accumulated fund	
Balance on last day of previous year	xxxx
Net surplus (shortfall) for the year	xxxx
Balance on last day of current year	xxxx
8. Payables (creditors)	
Creditors for refreshments, ties, etc.	xxxx
Accrued expenses	xxxx
Income received in advance	xxxx
Etc	xxxx
	xxxx

ACTIVITY 1

INSTRUCTION

Use the following information of Groenpunt Sports Club to prepare the following:

1.1 Membership fees account
1.2 The Statement of Receipts and Payments of the Groenpunt Sports Club for the year ended 31 December 2000.

INFORMATION

1. The Bank balance was favourable on 1 January 2000, R10 821.

2. Membership fees:
   2.1 The membership fees amount to R100 per member per year or part of a year.
   2.2 Membership fees in arrears for 1999 on 1 January 2000 amounted to R400.
   2.3 Membership fees of R600 for 2000 were paid during 1999.
   2.4 Membership fees banked during 2000:

1999	R 300
2000	R5 200
2001	R 500

   2.5 The remainder of the membership fees in arrears for 1999 must be written off as irrecoverable.
   2.6 The membership fees of 3 members were still outstanding on 31 December 2000.

3. Entrance fees:
   3.1 Entrance fees of R50 per member are payable when a new member joins the club.
   3.2 Seven new members joined the club during the year. All of them paid their entrance fees.
   3.3 Entrance fees must be seen as current income.

4. Refreshments sold:

Cash	R5 900
On credit	R 450

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5. Stationery bought:
   - By cheque R1 100
   - On credit R 410

6. Wages paid by cheque, R6 000. Wages due on 31 December 2000 amounted to R300.

7. Repairs and maintenance paid by cheque, R3 890.

8. Other payments by cheque:

Rent (11 months)	R7 700	
Honorarium to treasurer	500	
Affiliation fees: 2000	120	
2001	180	
Creditors		1 040

9. The following purchases were made:

Paid by cheque:		
Equipment		R950
Refreshments	R1 200	
Purchased on credit:		
Equipment		R375
Refreshments	R925	

10. Donations received during the year:

Cash		R3 550
Refreshments from members	R360	

11. According to the Bank statement, bank charges amounted to R1 189.

ACTIVITY 2

INSTRUCTION

Use the given information to prepare:

2.1 The following accounts in the General ledger, properly balanced:
- 2.1.1 Membership fees
- 2.1.2 Entrance fees
- 2.1.3 Refreshments (The profit or loss on refreshments is calculated in the refreshments account.)

2.2 The Statement of Income and Expenditure for the year ended 31 December 2000.

The financial year of Pirates Soccer Club ends on 31 December annually.

PRE-ADJUSTMENT TRIAL BALANCE OF PIRATES SOCCER CLUB ON 31 DECEMBER 2000

	Debit	Credit
Balance sheet accounts section		
Capital fund		30 481
Equipment	30 950	
Accumulated depreciation on equipment		1 680
Investment: Standard Bank	14 000	
Loan: Standard Bank		1 500
Bank	2 300	
Petty cash	200	
Nominal accounts section		
Entrance fees		1 700
Membership fees		29 000
Interest on investment		1 680
Interest on loan	300	
Wages	12 610	
Donations		5 224
Affiliation fees	250	
Insurance	2 100	
Stationery	1 187	

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Rent expense	3 060	
Bank charges	1 234	
Refreshments purchased	2 489	
Refreshments sold		4 640
Honorarium – secretary	1 100	
Gate income		3 650
Repairs	6 257	
Profit on annual function		2 482
Prizes – tournament	4 000	
	82 037	82 037

ADJUSTMENTS

1. According to the constitution, entrance fees are regarded as current income.

2 Membership fees:

2.1 The annual membership fees are R100 per member per annum. Four members were in arrear with their membership fees on 1 January 2000. Three of these members paid their membership fees for 1999 as well as 2000. The membership fees of the remaining member must be written off as irrecoverable and his membership must be terminated.

2.2 Five members paid their membership fees for 2001 during December 2000.

2.3 Membership fees of two members were still not received on 31 December 2000.

2.4 On request of the secretary, R100 of his honorarium was to be used as payment of his membership fees.

3. Interest on investment was received for nine months only. Make provision for the year. Interest on investment must be calculated at 16% p.a.

4. The balance on the loan account was R4 500 on 1 January 2000. Two thirds of the amount was paid on 1 July 2000. Interest on the loan is calculated at 20% p.a. and was paid for a part of the year only. Make provision for the amount outstanding.

5. R200 of the wages was paid in advance to the caretaker.

6. Affiliation fees for 2001 was paid during December 2000, R150.

7. An annual insurance premium of R300 was paid on 30 June 2000.

8. According to a physical stocktaking on 31 December 2000, stationery on hand amounted to R247.

9. Rent for the fourth quarter was not paid.

10. The bank statement for December 2000 was received after the trial balance had been drawn up. It showed bank charges of R85 for the month.

11. All the refreshments of R342 on hand were sold to the members at cost price on 20 December 2000:

Cash sales	R103
Credit sales	R239

These transactions were not recorded in the books.

12. Repairs of R250 to sports equipment was debited against the Equipment account. Correct the error.

13. Depreciation to be calculated on the cost price of equipment at 5% per annum.

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10 **ACTIVITY 3** **(Higher Grade)**

On 31 December 1999 Umgeni Sports Club had 85 members. The financial year of the club ends on 31 December annually.

INSTRUCTION

Use the information given to prepare the following for Umgeni Sports Club:

1 Draw up the membership fees account.
2 Prepare the Statement of Income and Expenditure for the year ended 31 December 2000.
3 Show the following Notes to the Balance sheet at 31 December 2000:
Accumulated fund / Capital fund
Property, plant and equipment
Cash and cash equivalents
Creditors / Accounts payable

UMGENI SPORTS CLUB
POST-CLOSING TRIAL BALANCE ON 31 DECEMBER 1999

Balance sheet accounts section		
Accumulated fund		95 000
Clubhouse and sports grounds	100 700	
Mortgage bond from Allied Bank (15% p.a.)		40 000
Equipment	20 000	
Accumulated depreciation on equipment		3 800
Investment: Allied Bank (12% p.a.)	6 000	
Sundry creditors		5 400
Inventory: track suits	2 425	
Bank	12 765	
Savings account	375	
Income received in advance (see note)		1 020
Accrued income (membership fees)	2 880	
Accrued expenses (telephone)		260
Prepaid expenses (stationery)	335	
	145 480	**145 480**

Note: Income received in advance consists of:
Membership fees (2000), R900
Interest on investment, R120
(Interest on investment was received until 28 February 2000.)

Summary of receipts and payments for the year ended 31 December 2000

Receipts		**Payments**	
Entrance fees	4 125	Creditors	21 000
Membership fees	16 410	Wages	10 200
Sale of tracksuits	7 560	Purchase of tracksuits	4 660
Tournament income	15 350	Tournament expenses	9 200
Interest on investment	600	Stationery	1 150
Donations	20 600	Water and electricity	5 950
		Honorarium	1 200
		Mortgage loan: Allied Bank (repayment)	13 000
		Investment: Allied Bank (2000/06/30)	4 000
		Membership fees (cheque R/D – R. Daiwa)	180
		Bank charges	1 090
		Equipment (2000/10/01)	2 000
		Telephone	2 620
Total	64 645	Total	76 250

Additional information and adjustments

1. The constitution stipulates the following in respect of membership fees and entrance fees:
1.1 Membership fees are R180 per member per year. The membership fees of members who join during the financial year, are calculated on a pro rata basis for the unexpired months of the financial year. Any part of a month is regarded as a full month.
1.2 New members must pay an additional amount of R125 as entrance fees, that must be regarded as current income.

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2. During July 2000, 20 new members joined the club while a further 13 new members joined during November 2000. All these members paid their entrance fees as well as their membership fees in full by cheque.

3 3.1. R2 160 of the membership fees in arrears on 31 December 1999 was received. It was decided that the remainder must be written off as irrecoverable and the membership of these members be terminated with effect from 1 January 2000.
3.2. A cheque for R180, marked R/D (insufficient funds) was received during December 2000 from R. Daiwa in payment of his membership fees.

4. During December 2000, nine members paid their membership fees for 2001, while the membership fees of some members were still due on 31 December 2000.

5. After a comparison with the Bank statement for December 2000, it was discovered that the following entry did not appear in the books of the club: Bank charges, R234

6. An invoice for R36 000 was received from Alpha Builders for the building of a new tuckshop.

7. According to a physical stocktaking on 31 December 2000, track suits with a cost price of R3 125 were on hand.

8. Stationery to the value of R378 to be used in 2001 had already been paid for.

9. The account for water and electricity for December 2000 will only be paid on 4 January 2001, R475.
10. Interest on the savings account was added directly to the savings account by the bank, R34. The club regards the savings account as a current asset.

11. An instalment of R10 000 on the mortgage bond must be paid on 30 June every year. The payment to Allied Bank was in respect of interest on mortgage bond calculated up to 30 June 2000 as well as the annual capital repayment.

12. Make provision for the interest outstanding on the investment.

13. Depreciation on the equipment must be calculated at 10% per annum according to the diminishing balance method.

COMPANIES

1. INTRODUCTION

A company is a legal entity.

2. SHARE CAPITAL

2.1 Ordinary share capital

- Capital is divided into shares sold to the public.

Example: R200 000 can be divided into 100 000 shares of R2 each. The value given to the share (R2) is called the nominal value or par value of the share.

2.2 Authorised share capital

It represents the maximum number of shares which a company is *authorised* to sell to shareholders. If a company is registered to sell 100 000 shares at R2 per share, the authorised share capital will be R200 000.

2.3 Issued share capital

It represents the *actual* amount of shares issued (sold) to shareholders. If a company is registered to sell 100 000 shares at R2 per share, but it only issues 60 000 shares, its' **issued share capital** will only be 60 000 at R2 = R120 000.

2.4 Unissued/reserve share capital

It represents the number of shares ***not*** issued (the difference between authorised and issued share capital)

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= R200 000 – R120 000 = R80 000.

2.5 Ordinary Share Premiums

- Shares are issued at a premium if they are issued *above* their par value.
- The share premium is entered in a separate account.

example

Shares were sold for R300 000.
The par value of a share was R2.
100 000 shares were sold.
Therefore: **Par value**: 100 000 x R2 = R200 000
(Debit Bank; Credit Ordinary Share Capital)
Premium value: 100 000 x R1 = R100 000
(Debit Bank; Credit Ordinary Share Premium)

ORDINARY SHARE CAPITAL

				2004 Jan. 1	Bank		200 000

ORDINARY SHARE PREMIUM

				2004 Jan. 1	Bank		100 000

3 INCOME TAX

3.1 Income tax is calculated as a percentage of net income.

3.2 Provisional income tax

- A company estimates the taxable income for a financial year.
- Two provisional income tax payments are paid to SARS.
  The first provisional payment is made after six months after the beginning of the accounting period.
  The second is paid at the end of the accounting period.
- The third and final amount is paid at the end of the financial year after the actual taxable income is calculated.
- Entries: Provisional income tax
  Debit: South African Revenue Services (SARS) (Income Tax)
  Credit: Bank

3.3 Actual income tax

The entry for the **actual income tax** for the accounting period:
Debit: Income Tax
Credit: SARS (Income Tax)

example

SARS (INCOME TAX)

2004 Jan. 1	Bank	(1)	5 000	2004 Jan. 1	Balance	b/d (1)	5 000
Jun. 30	Bank	(2)	12 000	Dec. 31	Income tax	(4)	25 000
Dec. 20	Bank	(3)	12 000				
Dec. 31	Balance	c/d	1 000				
			30 000				**30 000**
				2005 Jan. 1	Balance	(5)	1 000

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INCOME TAX

2004 Dec. 31	SARS (Income Tax)	(4)	25 000	2004 Dec. 31	Appropriation account	(6)	25 000

(1) Paid the amount (R5 000) owing at the end of the previous accounting period (balance).
Debit SARS (Income Tax)
Credit Bank
(2) First provisional tax payment.
Debit SARS (Income Tax)
Credit Bank
(3) Second provisional tax payment.
Debit SARS (Income Tax)
Credit Bank
(4) The total income tax for the accounting period calculated.
Debit Income Tax
Credit SARS (Income Tax)
(5) Entered in the Balance Sheet at the end of the accounting period as a current liability.
A debit balance will be entered as a current asset.
(6) The total income tax for the year is closed off to the Appropriation Account.
Debit Appropriation Account
Credit Income Tax

4. DIVIDENDS

4.1 Dividends are paid to shareholders as a reward for their investment.

4.2 Interim dividends
Interim dividends are declared and paid during the accounting period.

4.3 Final dividend
A final dividend is the last dividend declared for the accounting period.

4.4 Total dividend
An interim dividend plus the final dividend represents the total dividend for the accounting period.

4.5 Entries for dividends *declared* (*not paid*):
Debit: Ordinary Share dividends
Credit: Shareholders for dividends

4.6 Entries for *payments* of dividends:
Debit: Shareholders for dividends
Credit: Bank

4.7 Entries for interim dividends *declared and paid*:
Debit: Ordinary Share dividends
Credit: Bank

example

SHAREHOLDERS FOR DIVIDENDS

2004 Jan. 31	Bank	(1)	10 000	2004 Jan. 1	Balance	b/d	10 000
				Dec. 31	Ordinary share dividends	(3)	12 000

The balance of the account is entered as a current liability in the Balance Sheet.

ORDINARY SHARE DIVIDENDS

2004 Jul. 31	Bank	(2)	5 000	2004 Dec. 31	Appropriation account	(4)	17 000
	Shareholders for						

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Dec. 31	Dividends	(3)	12 000				
			17 000				**17 000**

(1) The balance at the beginning of the accounting period is the final dividend owing. This is paid early in the new accounting period.
Debit Shareholders for Dividends
Credit Bank

(2) An interim dividend declared and paid during the accounting period.
Debit Ordinary Share Dividends
Credit Bank

(3) The final dividend declared at the end of the accounting period. This will be paid early in the new accounting period.
Debit Ordinary Share Dividends
Credit Shareholders for Dividends

(4) The total dividends for the year is closed off to the Appropriation account at the end of the accounting period.
Debit Appropriation account
Credit Ordinary Share Dividends

5. APPROPRIATION ACCOUNT

APPROPRIATION ACCOUNT

2004 Dec. 31	Income Tax	(2)	25 000	2004 Dec. 31	Profit and Loss Account	(1)	50 000
	Ordinary Share dividends	(3)	17 000		Retained income (beginning of year)	(4)	3 000
	Retained income (balance)	(5)	11 000				
			53 000				**53 000**

(1) Net income is transferred from the Profit and Loss account.
Debit Profit and Loss account
Credit Appropriation account

(2) Income tax transferred from the Income Tax account.
Debit Appropriation account
Credit Income Tax

(3) Ordinary Share dividends transferred.
Debit Appropriation account
Credit Ordinary Share dividends

(4) Retained income transferred (balance at the beginning of the year)
Debit Retained income
Credit Appropriation account

(5) Final retained income (the balance of the appropriation account) is transferred from the Appropriation account to the Retained income account.
Debit Appropriation account
Credit Retained income

6. RETAINED INCOME ACCOUNT

RETAINED INCOME

2004 Dec. 31	Appropriation account	(2)	3 000	2004 Jan. 1	Balance	b/d (1)	3 000
				Dec. 31	Appropriation account	(3)	11 000

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(1) Balance at beginning of accounting period.

(2) Balance at beginning of year transferred to Appropriation account.
Debit Retained income account
Credit Appropriation account

(3) Final retained income transferred from the Appropriation account to the Retained Income account
Debit Retained income account
Credit Appropriation account

- The amount of retained income belongs to the shareholders.
- The Retained Income account is entered as an owner's equity account in the balance sheet.

ACTIVITY 4

INSTRUCTION
Use the following information to prepare the following accounts in the ledger of ABC Ltd. for the accounting period ended 30 June 2004:

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

INFORMATION

1 July 2003	The following balances appeared in the ledger:	
	Ordinary share capital	R300 000
	Ordinary share premium	R 40 000
	Retained income	R 50 000
	SARS (Income tax)	R 20 000 (Credit)
	Shareholders for dividends	R 10 000

1) 15 July 2003 The company issued a further 40 000 ordinary shares at R3,00 each. This included share premium of R1,00 per share. The proceeds of this issue were banked.

2) 20 July 2003 The SARS and the shareholders were paid the amounts due to them.

3) 31 December 2003 The company paid provisional income tax of R50 000 and interim dividends of 15c per share.

4) 30 June 2004 At the end of the accounting period, the company made a second provisional tax payment of R60 000 and the directors recommended a final dividend of 30c per share.

5) 15 August 2004 The audit was completed. The net profit for the year ended 30 June 2004 was calculated at R420 000. Income tax is to be calculated at 40% of the net profit plus 15% of dividends for the year.

7. FINANCIAL STATEMENTS

The financial statements of a company consists of the following:

1. Income Statement
2. Balance Sheet
3. Cash Flow Statement (HG only)

7.1 Format of an Income Statement

	Notes	R	R
Sales			xxxxx
Cost of sales			(xxx)
Gross Profit			Xxxxx

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Other Operating Income			Xxxxx
Discount received		xxx	
Rent income		xxx	
Profit on sales of assets		xxx	
Bad debts recovered		xxx	
Provision for bad debts adjustment (decrease)		xxx	
Etc.		xxx	
Gross Operating Income			Xxxxx
Operating Expenses			(xxx)
Advertising		xxx	
Salaries and wages		xxx	
Depreciation		xxx	
Provision for bad debts adjustment (increase)		xxx	
Bad debts		xxx	
Sundry expenses		xxx	
Etc.		xxx	
Operating Profit (Loss)			Xxxxx
Interest Income	1		Xx
Profit (loss) before interest expense / finance cost			Xxxxx
Interest expense / Finance cost	2		(xx)
Profit (Loss) before tax			Xxxxx
Taxation			(xx)
Net Profit (Loss) for the year	9		**Xxxxx**

ACTIVITY 5

INSTRUCTION
Income Statement of Ernest Ltd. for the year ended 31 October 2002.

INFORMATION
The following balances, amongst others, appear in the Pre-adjustment trial balance of Ernest Ltd. on 31 October 2002.

Balance sheet accounts section	**R**
Ordinary share capital (R2 each)	160 000
Ordinary share premium	10 000
Accumulated profits	34 000
Loan: BOE (18% p.a.)	80 000
Trading stock	105 000
Debtors control	38 000
Provision for bad debts	2 100
Bank (Cr.)	9 000
Nominal accounts section	
Sales	800 000
Debtors allowances	23 000
Cost of sales	490 000
Advertisements	7 100
Audit fees	5 000
Bad debts	700
Commission income	22 700
Directors' fees	30 000
Interest income (debtors' accounts)	1 200
Ordinary shares dividends	10 000
Interest on loan	8 000
Rent expense	45 500
Salaries and wages	91 000

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ADJUSTMENTS

1. R2 000 commission is still owing to the business.
2. A debtor, B. Smith, returned goods to us that we sold to him on credit. The original marked price of the goods was R6 000 but we had allowed him trade discount of 10%. The cost price on these goods was R4 000.
3. J. Knowles, a debtor, who owes us R1 200 has been declared insolvent. His estate will pay out 30 cents in the rand. The balance is to be written off.
4. Certain debtors are to be charged interest amounting to R500 on their overdue accounts.
5. The Provision for bad debts is to be adjusted to R1 800.
6. In terms of the loan agreement with BOE R20 000 must be paid off on 1 June each year. This year's payment has been made. Adjust for outstanding interest.
7. Advertising includes a contract signed with Independent Newspapers amounting to R1 200 for advertising in the newspaper over the period 1 October 2002 to 31 December 2002.
8. The premises have been rented since 1 January 2002 at a cost of R5 000 per month. Make the necessary adjustment.
9. Stocktaking on 31 October revealed stock on hand worth R110 000.
10. Income tax amounted to R40 000.
11. A final dividend of 15 cents per share has been declared.

7.2 Format of a Balance Sheet

	Notes	R	R
ASSETS			
NON-CURRENT ASSETS			xxxxx
Fixed assets / Tangible assets / Property / Plant / Equipment	3	xxxx	
Financial assets			
Fixed deposits (maturation period longer than 12 months)		xxxx	
CURRENT ASSETS			Xxxxx
Inventories	4	xxxx	
Trade and other debtors	5	xxxx	
Cash and cash equivalents	6	xxxx	
TOTAL ASSETS			**XXXXX**
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			Xxxxx
Ordinary share capital / equity	7	xxxx	
Share premium	8	xxxx	
Accumulated profit / Retained income	9	xxxx	
NON-CURRENT LIABILITIES			Xxxxx
Mortgage bond (maturation period longer than 12 months)		xxxxx	
CURRENT LIABILITIES			Xxxxx
Trade and other creditors	10	xxxx	
Bank overdraft		xxxx	
Short-term loans (including current portion of long term loans		xxxx	
payable within 12 months)			
TOTAL EQUITY AND LIABILITIES			**XXXXX**

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NOTES TO FINANCIAL STATEMENTS

1. Interest income / Investment income				
From investments				Xxxx
From overdue debtors				Xxxx
From current account				Xxxx
				Xxxx
2. Interest expense / Finance costs				
On mortgage bond				Xxxx
On overdraft				Xxxx
On overdue creditors				Xxxx
				Xxxx
3. Fixed Assets / Tangible assets / Property / Plant / Equipment	**Land and buildings**	**Vehicles**	**Equipm**	**Total**
Cost	xxxx	xxxx	xxxx	Xxxxx
Accumulated depreciation		(xx)	(xx)	(xxx)
Carrying value end of previous year	xxxx	xxxx	xxxx	Xxxxx
Movement				
Additions at cost	xxxx	xxxx	xxxx	Xxxx
Disposals at carrying value		(xx)	(xx)	(xx)
Depreciation for the year		(xx)	(xx)	(xx)
Carrying value end of current year **	**xxxx**	**xxxx**	**xxxx**	**Xxxx**
Cost	xxxxx	xxxxx	xxxxx	Xxxxx
Accumulated Depreciation		(xx)	(xx)	(xx)
**	**xxxxx**	**xxxxx**	**xxxxx**	**Xxxxx**
4. Inventories				
Trading stock				Xxxx
Consumables stores on hand				Xxxx
(includes stationary on hand)				Xxxx
5. Trade and other receivables (debtors)				
Trade debtors				Xxxx
Provision for bad debts				(xx)
Net trade debtors				Xxxx
Prepaid expenses				Xxxx
Accrued income				Xxxx
Deposit for water and electricity				Xxxx
SA Revenue Services (Income tax)				Xxx
				Xxxx
6. Cash and cash equivalents				
Fixed deposits (maturing in 12 months)				Xxxx
Savings account				Xxxx
Bank				Xxxx
Cash float				Xxxx
Petty cash				Xxxx
				Xxxx

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7. Ordinary share capital		
Authorised		
xxx ordinary shares of Rxx each		Xxxxx

Issued		
x issued at Rx last day of last year		Xxxxx
xx shares at Rx each issued during year		Xxxxx
xx shares at Rx on closing date		Xxxxx
8. Share premium		
Balance on last day of previous year		Xxxx
xx shares issued during financial year at premium of x cents		Xxxx
Balance on last day of current year		Xxxx
9. Accumulated profits / Retained income		
Balance on last day of previous year		Xxxx
Net profit (loss) after tax for the year		Xx
Ordinary dividends		(xx)
Paid	(xx)	
Recommended	(xx)	
Balance on last day of current year		Xxxx
10. Trade and other payables (creditors)		
Trade creditors		Xxxx
Accrued expenses		Xxxx
Income received in advance		Xxxx
Creditors for salaries		Xxxx
Pension fund		Xxxx
Medical fund		Xxxx
Shareholders for dividends		Xxxx
South African Revenue Services		Xxxx
- Income tax	xxx	
- PAYE	xxx	
		Xxxx

ACTIVITY 6

INSTRUCTION

3.1 Prepare the Balance sheet of Happy Valley Limited at 28 February 2001.
3.2 Prepare the notes to the Balance sheet at 28 February 2001.

INFORMATION

Happy Valley Limited has an authorised share capital of 200 000 ordinary shares of R2 per share.

1. Information extracted from a list of balances and totals on 28 February 2001.

	Debit	Credit
Ordinary share capital		300 000
Ordinary share premium		80 000
Accumulated profits (1 March 2000)		40 000
Mortgage bond: ERH Bank		110 000

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Land and buildings	359 680	
Vehicles at cost price	170 640	
Equipment at cost price	95 000	
Accumulated depreciation on vehicles (1 March 2000)		53 120
Accumulated depreciation on equipment (1 March 2000)		22 300
Trading stock	67 936	
Consumable stores on hand	4 200	
Debtors control	24 200	
Creditors control		52 013
Provision for bad debts (1 March 2000)		800
Bank	45 396	
Cash float	1 200	
Petty cash	500	
SARS (Income tax)	42 500	
Unemployment Insurance Fund		1 600
Prepaid expenses	6 500	
Accrued expenses		3 000
Income received in advance		1 505
Accrued income	5 000	
Ordinary share dividends (Dividends on ordinary shares)	25 000	
Profit and loss account (net profit)		105 000

2. General ledger

The relevant entries in the accounts below were not posted to the following accounts:

Accumulated depreciation on vehicles
Accumulated depreciation on equipment
Provision for bad debts

All the postings to the Profit and loss account were made:

NOTE: The net income is correct and must not be adjusted.

DEPRECIATION

2001 Feb. 28	Accumulated depreciation on vehicles		23 504	2001 Feb. 28	Profit and loss		33 004
	Accumulated depreciation on equipment		9 500				
			33 004				**33 004**

PROVISION FOR BAD DEBTS ADJUSTMENT

2001 b. 28	Provision for bad debts		410	2001 Feb. 28	Profit and loss		410
			410				**410**

3. Adjustments and additional information must still be taken into account.

3.1 The total income tax for the financial year ended 28 February 2001 amounted to R45 000.

3.2 A final dividend of 20c per share was declared on 28 February 2001.

4. The accumulated profits on 28 February 2001 amounts to R90 000.

7.3 CASH FLOW STATEMENT (HIGHER GRADE)

- The Cash flow statement gives details of:
  - cash generated by operating activities.
  - cash generated from investing activities.
  - cash generated from financing activities.

- The Cash flow statement indicates the movement of cash; whether the bank balance has increased or decreased during an accounting period.

- Information comes from the Income Statement and Balance Sheet of the current year, and together with the Balance Sheet of the previous year, the cash flow for the current year is determined.

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Format of a Cash Flow Statement of a company.

	Notes	R	R
Cash flow from operating activities			XXXX
Cash generated from operations	1	xxxx	
Interest paid		(xx)	
Dividends paid	3	(xx)	
Income tax paid	4	(xx)	
Cash flow from investing activities			(XXX)
Purchase of fixed assets / Non-current assets	5	(xxxx)	
Proceeds from sale of fixed assets / non- current assets		xxxx	
Cash flow from financing activities			XXXX
Proceeds from shares issued		xxxx	
Proceeds from long term loans		xxxx	
Payment of long term loans		(xxx)	
Net change in cash and cash equivalents	2		XXXX
Cash and cash equivalents at beginning of year	2		Xxx
Cash and cash equivalents at end of year	2		XXXXX

NOTES TO THE CASH FLOW STATEMENT

1 Reconciliation between profit before taxation and cash generated from operations			
Profit before taxation		xxx	
Adjustments -			
- Depreciation		xxx	
- Interest paid		xxx	
Operating profit before changes in working capital			xxxx
(Increase) / Decrease in inventory		xxx	
(Increase) /Decrease in debtors		xxx	
(Increase) / Decrease in creditors		xxx	xxxx
Cash generated from operations			Xxxxx
2. Cash and cash equivalents	**Net change**	**This year**	**Previous Year**
Bank (Bank overdraft)	xx	xxxx	Xxxx
Cash float		xxxx	Xxxx
Petty cash		xxx	Xxx
	xx	xxxx	Xxxx

The following notes are not required, but calculations should be shown.
Ledger accounts are acceptable

3. Dividends paid			

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Amount in financial statements			(xxxx)
Balance on last day of previous year			(xxxx)
Balance on last day of current year			Xxxx
			(xxxx)
4. Taxation paid			
Amount in income statement			(xxxx)
Balance on last day of previous year			(xxxx)
Balance on last day of current year			Xxxx
			(xxxx)
5 Tangible assets purchased / Fixed assets purchased/ Property, plant and equipment purchased			
Land and buildings			(xxx)
Equipment			(xxx)
Vehicles			(xxx)
			(xxx)

ACTIVITY 7

INFORMATION
You are provided with a summarised Income Statement and Balance Sheet of XYZ Limited.

XYZ LIMITED
INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2004

Turnover		1 000 000
Cost of sales		(600 000)
Gross profit		400 000
Operating expenses		(320 000)
Wages	190 000	
Depreciation	25 000	
Audit fees	15 000	
Director's fees	80 000	
Sundry expenses	10 000	
Operating profit		80 000
Interest income		---
Profit before interest expense		80 000
Interest expense / financing cost		(16 000)
Net profit before tax		64 000
Taxation		(25 000)
Net profit after tax		**39 000**

Notes to the Financial Statements

9. Accumulated profit / Retained income		
Balance (last date of previous year)		15 000
Net profit after tax for the year		39 000
		54 000
Distribution of ordinary share dividends		(20 000)
Paid	(8 000)	
Recommended	(12 000)	
Balance (closing date)		34 000

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XYZ LIMITED
BALANCE SHEET AT 28 FEBRUARY 2004

	N	2004	2003
ASSETS			
Non-current assets		**360 000**	**300 000**
Tangible assets (fixed assets)	3	360 000	300 000
Financial assets (Investments > 12 months)		-	-
Fixed deposits			
Current assets		**183 000**	**190 000**
Inventories	4	120 000	104 000
Trade and other receivables	5	42 000	52 000
Cash and cash equivalents	6	21 000	34 000
Total assets		**543 000**	**490 000**
EQUITY AND LIABILITIES			
Share capital and reserves			
Ordinary share capital	7	300 000	240 000
Share premium	8	32 000	20 000
Retained income	9	34 000	15 000
Shareholders' equity		**366 000**	**275 000**
Non-current liabilities		**111 000**	**152 000**
Mortgage loan		111 000	152 000
Loan		-	-
Current liabilities		**66 000**	**63 000**
Trade and other payables	10	66 000	63 000
Bank overdraft		-	-
TOTAL EQUITY AND LIABILITIES		**543 000**	**490 000**

ADDITIONAL INFORMATION

1. Details of Tangible assets:

	2004	2003
Land and Buildings	240 000	190 000
Equipment (Carrying value)	120 000	110 000
	360 000	**300 000**

XYZ Ltd. sold equipment at carrying value during the year, R10 000.

2. Details of Trade and other payables:

	2004	2003
Trade creditors	50 000	48 000
SARS – Income tax	4 000	6 000
Shareholders for dividends	12 000	9 000
	66 000	**63 000**

INSTRUCTION
Draw up the Cash Flow Statement for the year ended 28 February 2004.

8. ANALYSIS OF FINANCIAL STATEMENTS (HIGHER GRADE)

8.1 Liquidity ratios

- **»current ratio**
  current assets **:** current liabilities
  Ideal ratio is 2:1
- **»acid test ratio**

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current assets (less stock) **:** current liabilities
Ideal ratio is 1:1

- **»average debtor collection period**

$$= \frac{\text{average debtors}}{\text{credit sales}} \times \frac{365}{1}$$

$$= \frac{\frac{1}{2}(\text{debtors this year} + \text{last year})}{\text{credit sales}} \times \frac{365}{1}$$

= _____ days

The shorter the period, the more liquid the business will be.

- **»average creditors collection period**

$$= \frac{\text{average creditors}}{\text{credit purchases}} \times \frac{365}{1}$$

= _____ days

or $\frac{\text{average creditors}}{\text{credit purchases}} \times \frac{12}{1}$

= _____ months

The longer it takes to pay the creditor, the better for the business if no interest is charged.

- **»ratio of stock turnover**

$$= \frac{\text{cost of sales}}{\text{average stock}}$$

[average stock = (opening stock + closing stock) ÷ 2]
The higher the rate, the sooner money becomes available to the business.

- **»number of months' stock on hand**

$$= \frac{\text{average stock}}{\text{cost of sales}} \times \frac{12}{1}$$

= _____ months.

8.2 • **Debt / equity ratio**

non-current liabilities **:** shareholders' equity
(Shareholders' equity = ordinary share capital + ordinary share premium + retained income.)
Ideal ratio is 1:1

8.3 • **Return on capital employed (ROTCE)**

$$\frac{\text{net profit before tax} + \text{interest on loan}}{\text{average capital employed}} \times \frac{100}{1}$$

= _____%

Rate should be higher than the bank rate.

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8.4 • **Return on shareholders' equity (ROSHE)**

$$= \frac{\text{net profit after tax}}{\text{average shareholders' equity}} \times \frac{100}{1}$$

= _____ %

Rate should be higher than the bank rate.

8.5 • **Earnings per share (EPS)**

$$= \frac{\text{net profit after tax}}{\text{number of shares issued}} \times \frac{100}{1}$$

= _____ cents.
Must be competitive with similar investments.

8.6 • **Dividends per share (DPS)**

$$= \frac{\text{dividends}}{\text{number of shares issued}} \times \frac{100}{1}$$

= _____ cents.
Compare it with the par value.

8.7 • **Net asset value per share (NAV)**

$$= \frac{\text{shareholders' equity}}{\text{number of shares issued}} \times \frac{100}{1}$$

= _____ cents.
Compare with par value.
The higher the value the better.

8.8 • **Net income before tax on turnover (or Net income percentage)**

$$= \frac{\text{Net income before tax}}{\text{turnover / sales}} \times \frac{100}{1}$$

= _____%
Compare with market conditions.

CLOSE CORPORATIONS

1. INTRODUCTION

- A close corporation is a legal entity.
- The owners are known as members.
- The interest of a member in a close corporation is expressed as a percentage.
- The interest does not have to be in relation to a member's contribution.

2. ADDITIONAL LEDGER ACCOUNTS

2.1 MEMBERS' CONTRIBUTIONS

- Contributions by members can be in the form of:
  - cash
  - assets (land, equipment)
  - services rendered to the business.

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- Members' Contributions account is the same as the Capital account and is regarded as owners' equity.
- No account is opened separately for contributions made by each member.

example

>ABC CC was registered on 1 January 2004 with 3 members who made the following contributions:
(1) A. Adams – R20 000 cash.
(2) B. Baloy – Equipment to the value of R15 000.
(3) C. Cohen – Services rendered to the value of R14 000.

	Account debited	Account credited	Amount
(1)	Bank	Members' contribution	20 000
(2)	Equipment	Members' contribution	15 000
(3)	Services rendered	Members' contribution	14 000

2.2 LOANS TO MEMBERS

- Loans to members are regarded as assets of the business.
- Interest received on the loans are regarded as an income.

2.3 LOANS FROM MEMBERS

- Loans borrowed from members are regarded as a liability to the business.
- Interest paid on the loans are regarded as an expense.

example

>ABC CC has 3 members: A. Adams, B. Baloy and C. Cohen.
>The following transactions took place:
(1) Made a loan, R10 000, interest free to A. Adams.
(2) B. Baloy made a loan of R100 000 to the business. Interest of 15% is payable quarterly.

	Account debited	Account credited	Amount
(1)	Loan to A. Adams	Bank	10 000
(2)	Bank	Loan from B. Baloy	100 000

2.4 PAYMENTS TO MEMBERS

There are routine transactions made in the ordinary course of business:

- salaries
- interest
- repayment of loan
- repayment of members' contribution

example

>ABC CC has 3 members. The following transactions took place:
(1) Paid salary of R5 000 to B. Baloy.
(2) Paid R600 to C. Cohen for interest payable on a loan granted to the business.
(3) Paid R6 000 to A. Adams as part-payment on a loan granted to the business.
(4) Issued a cheque to A. Adams for R5 000 as part-payment of his members' contribution.

	Account debited	Account credited	Amount
(1)	Salary: B. Baloy	Bank	5 000
(2)	Interest on loan: C. Cohen	Bank	600
(3)	Loan from A. Adams	Bank	6 000
(4)	Members' contribution	Bank	5 000

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3. FINAL LEDGER ACCOUNTS

3.1 INCOME TAX

- A close corporation must pay two provisional income tax payments to the S.A. Revenue Service (SARS). The first payment is made about six months after the beginning of the accounting period, and a second at the end of the accounting period.
- At the end of the accounting period the actual amount of income tax is calculated.
  Dr. Income tax;
  Cr. SARS (Income tax)

example

> ABC CC paid provisional tax on 1 July 2004 of R10 000 and R5 000 on 30 December 2004. The income tax was calculated at R20 000 on 31 December (at the end of the accounting period.)

Dat.	Account debited	Account credited	Amount
July 1	SARS (Income tax)	Bank	10 000
Dec. 30	SARS (Income tax)	Bank	5 000
Dec. 31	Income tax	SARS (Income tax)	20 000

- SARS (Income tax) is regarded a liability and appears under current liabilities in the balance sheet. If the account has a debit balance at the end of the year, it is regarded as an asset and appears under current assets in the balance sheet.
- The Income Tax account is regarded as an expense account.
- The Income Tax account is closed off to the Appropriation account.

3.2 DISTRIBUTION OF NET INCOME

- Each member is entitled to this part of the net income according to the percentage interest in the close corporation.
- Once the distribution of net income is approved, an entry is made to show that the close corporation owes money to the members.
  Debit Distribution to members account
  Credit Distribution payable to members account
- The Distribution payable to members account is shown under current liabilities in the balance sheet.
- Distribution of net income after tax is done in the ratio of the member's interest (percentage) and **not** to the member's contributions.

3.3 RETAINED INCOME ACCOUNT

- If no distribution of profit is done in a specific financial year, the net profit after tax is transferred to the Retained Income account.
  The Retained Income account is an owners' equity account.
- If part of the profit is not distributed, this amount is also transferred to the Retained Income account.
- The balance, if any, in the Retained Income account at the beginning of the financial year, must be added to the net profit after tax for the current year to calculate the total amount available for distribution. This amount is transferred to the Appropriation account.

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3.4 APPROPRIATION ACCOUNT

APPROPRIATION ACCOUNT

2004 Dec. 31	Income tax	(1)	30 000	2004 Dec. 31	Profit and loss	(3)	80 000
	Distribution to members	(2)	40 000		Retained income	(4)	5 000
	Retained income (balance)	(5)	15 000				
			85 000				**85 000**

Explanation

(1) The total income tax for the accounting period is transferred to the appropriation account.
Debit Appropriation account;
Credit Income tax.

(2) The total Distribution to members is shown in the appropriation account.
Debit Appropriation account;
Credit Distribution to members.

(3) The net income is transferred from the profit and loss account.
Debit Profit and loss account;
Credit Appropriation account.

(4) The retained income at the beginning of the accounting period id transferred to the appropriation account at the end of the accounting period to calculate the total amount for appropriation.
Debit Retained income;
Credit Appropriation account.

(5) This amount is the balance of the appropriation account. It is transferred to the retained income account at the end of the accounting period.
Debit Appropriation account;
Credit Retained income.

ACTIVITY 8

Cheetah Traders is a Close corporation with D. Dawie and F. Fralize as members.
The accounting period ends on 28 February annually.

INSTRUCTION

Use the information supplied below and prepare the following accounts in the General ledger.
Close/balance the accounts on 28 February 2002.

1.1 Members' contributions
1.2 SARS (Income tax)
1.3 Distribution to members
1.4 Appropriation account

INFORMATION

Extract from the list of balances on 1 March 2001

Members' contributions R320 000
Accumulated depreciation R 21 600
SARS (Income tax) R 2 500

TRANSACTIONS

2001

March 10 Issued cheque no. 333 for the outstanding income tax.
August 31 Issued cheque no. 546 for R22 000 to pay the first provisional income tax.
31 A vehicle valued at R55 000 was introduced into the business by D. Dawie to increase his members' contribution. F. Fralize gave her permission for this

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transaction.

November 18 F. Fralize rendered a bookkeeping service to the business to the value of R12 000. Approval was given to her to increase her members' contribution by this amount.
This amount is regarded as salary.

2002

February 26 Issued a cheque no. 661 for R23 000 to pay the second provisional tax.
28 The profit and loss account shows a net profit of R110 000.
28 The total income tax for the year was calculated at R44 800.
28 The members decided to share 50% of the net income before tax in the ratio: D. Dawie 55% and F. Fralize 45%.

4. FINANCIAL STATEMENTS (HIGHER GRADE)

The financial statements of a close corporation consist of:

- Income statement
- Balance sheet

4.1 FORMAT OF INCOME STATEMENT

	Notes	R	R
Sales			Xxxxx
Cost of sales			(xxx)
Gross Profit			Xxxxx
Other Operating Income			Xxxxx
Discount received		xxx	
Rent income		xxx	
Profit on sales of assets		xxx	
Bad debts recovered		xxx	
Provision for bad debts adjustment (decrease)		xxx	
Etc.		xxx	
Gross Operating Income			Xxxxx
Operating Expenses			(xxx)
Advertising		xxx	
Salaries and wages		xxx	
Depreciation		xxx	
Provision for bad debts adjustment (increase)		xxx	
Bad debts		xxx	
Sundry expenses		xxx	
Etc.		xxx	
Operating Profit (Loss)			Xxxxx
Interest Income	1		xx
Profit (loss) before interest expense / finance cost			Xxxxx
Interest expense / finance cost	2		(xx)
Profit (loss) before tax			Xxxxx
Taxation			(xxx)
Net Profit (Loss) for the year	9		Xxxxx

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4.2 FORMAT OF BALANCE SHEET

	Notes	R	R
ASSETS			
NON-CURRENT ASSETS			xxxxx
Fixed assets / Tangible assets / Property / Plant / Equipment	3	xxxx	
Loans to members	4	xxxx	
Financial assets			
Fixed deposits (maturation period longer than 12 months)		xxxx	
CURRENT ASSETS			Xxxxx
Inventories	5	xxxx	
Trade and other debtors	6	xxxx	
Cash and cash equivalents	7	xxxx	
TOTAL ASSETS			**XXXXX**
EQUITY AND LIABILITIES			
MEMBERS FUNDS			Xxxx
Members contributions	8	xxxx	
Accumulated profit / Retained income	9	xxxx	
NON-CURRENT LIABILITIES			Xxxxx
Mortgage bond (maturation period longer than 12 months)		xxxxx	
Loans from members	10	xxxx	
CURRENT LIABILITIES			Xxxxx
Trade and other creditors	11	xxxx	
Bank overdraft		xxxx	
Short-term loans (including current portion of long term loans		xxxx	
payable within 12 months)			
TOTAL EQUITY AND LIABILITIES			**XXXXX**

NOTES TO FINANCIAL STATEMENTS

1 Interest income/ Investment income	
From loans to members	Xxxx
From investments	Xxxx
From overdue debtors	Xxxx
From current accounts	Xxxx
	Xxxx
2. Interest expense / Finance cost	
On loans from members	Xxxx
On mortgage bond	Xxxx
0n overdraft	Xxxx
On overdue creditors	Xxxx
	Xxxx

3. Fixed Assets / Tangible assets /	**Land and**	**Vehicles**	**Equipm**	**Total**

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Property / Plant / Equipment	**building**			
Cost	xxxx	xxxx	xxxx	Xxxxx
Accumulated depreciation		(xx)	(xx)	(xxx)
Carrying value end of previous year	xxxx	xxxx	xxxx	Xxxxx
Movement				
Additions at cost	xxxx	xxxx	xxxx	Xxxx
Disposals at carrying value		(xx)	(xx)	(xx)
Depreciation for the year		(xx)	(xx)	(xx)
Carrying value end of current year *	**xxxx**	**xxxx**	**xxxx**	**Xxxx**
Cost	xxxxx	xxxxx	xxxxx	Xxxxx
Accumulated Depreciation		(xx)	(xx)	(xx)
*	**xxxxx**	**xxxxx**	**xxxxx**	**Xxxxx**
4. Loans to members		**A**	**B**	**TOTAL**
Balance on last day of previous year		xxx	xxx	Xxx
Repayments during the year		(xx)	(xx)	(xx)
New loans during current year		xxx	xxx	Xxx
Balance on last day of current year		xxx	xxx	Xxx
Interest at x% per annum is charged on these loans to be repaid on_____				
5. Inventories				
Trading stock				Xxxx
Consumables stores on hand				Xxxx
(includes stationary on hand)				
				Xxxx
6 Trade and other receivables (debtors)				
Trade debtors				Xxxx
Provision for bad debts				(xx)
Net trade debtors				Xxxx
Prepaid expenses				Xxxx
Accrued income				Xxxx
Deposit for water and electricity				Xxxx
SA Revenue Services (Income tax)				Xxxx
				Xxxx
7. Cash and cash equivalents				
Fixed deposits (maturing in 12 months				Xxxx
Savings account				Xxxx
Bank				Xxxx
Cash float				Xxxx
Petty cash				Xxxx
				Xxxx
8. Members' contributions				

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Members' contributions on last day of previous year			Xxxx
New contributions made during current year			Xxxx
Contributions withdrawn during current year			(xx)
Closing balance on last day of current year			Xxxx
9 Accumulated profits / Retained income			
Balance on last day of previous year			Xxxx
Net profit (loss) after tax for the year			Xxxx
Distribution to members			(xx)
Balance on last day of current year			Xxxx
10. Loans from members	**A**	**B**	**TOTAL**
Balance on last day of previous year	xxxx	xxxx	Xxxx
Repayments during the year	(xx)	(xx)	(xx)
New loans during current year	xxxx	xxxx	Xxxx
Closing balance on the last day of the current year	xxxx	xxxx	Xxxx
Interest is charged at x% per annum on loans and to be repaid on			
11 Trade and other payables (creditors)			
Trade creditors			Xxxx
Accrued expenses			Xxxx
Income received in advance			Xxxx
Creditors for salaries			Xxxx
Pension fund			Xxxx
Medical fund			Xxxx
Distribution payable to members			Xxxx
SA Revenue Services			Xxxx
- Income tax		xxx	
- PAYE		xxx	
			Xxxx

12. Transactions with members			
Profit before taxation is shown after the following transactions with members:			
	A	**B**	**TOTAL**
Interest income	xxx	xxx	Xxx
Rent income	xxx	xxx	Xxx
	xxx	xxx	Xxx
Interest paid	(xx)	(xx)	(xx)
Rent expense	(xx)	(xx)	(xx)
Members' remuneration	(xx)	(xx)	(xx)
	xxx	xxx	Xxx

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5 ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS (Higher Grade)

The formulae in the chapter on companies are also relevant to close corporations, except for the following two formulae which are relevant to close corporations only.

(a) Debt / equity ratio

= long-term liabilities : (members' equity + loans from members)

(b) Return on members' equity

$$= \frac{\text{net income after tax} + \text{interest on loans from members}}{\text{average members' equity} + \text{average loans from members}} \times \frac{100}{1}$$

ACTIVITY 9 (Higher Grade)

The following information was extracted on 28 February 2002, the last day of the finacial year, from the books of Govette Traders CC, a close corporation with members M. Goetham and S. Nomvette.

INSTRUCTION

1 Prepare the Income Statement for the year ended 28 February 2002.
2 Prepare the following notes to the financial statements for the year ended 28 February 2002:
  2.1 Interest income
  2.2 Interest expense
  2.3 Accumulated profits

Note: Show calculations in brackets.

INFORMATION

GOVETTE TRADERS CC
PRE-ADJUSTMENT TRIAL BALANCE ON 28 FEBRUARY 2002

	Debit	Credit
Balance sheet accounts section		
Members' contribution		200 000
Accumulated profits		38 200
Loan from M. Goetham		30 000
Land and buildings	277 375	
Equipment at cost	48 000	
Accumulated depreciation on equipment (2001/03/01)		22 800
Loan to S. Nomvette (10% p.a.)	25 000	
Trading inventory / Stock	38 650	
Debtors control	22 250	
Provision for bad debts		1 100
Creditors control		55 210
SARS (income tax)	15 410	
Bank		6 370
Petty cash	300	
Cash float	1 500	
Nominal accounts section		
Sales		532 400
Cost of sales	266 720	
Debtors allowances	7 380	
Rent income: M. Goetham		62 280
Interest on loan: S. Nomvette		2 500
Interest received (overdue accounts)		4 900

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Packing material	11 800	
Wages	84 200	
Salary: S. Nomvette	30 250	
Salary: M. Goetham	36 000	
Advertising	9 810	
Bad debts	2 500	
Bad debts recovered		1 600
Repairs	6 600	
Interest on loan: M. Goetham	3 575	
Interest on bank overdraft	3 740	
Sundry expenses	66 300	
	957 360	957 360

Adjustments and additional information

1. Donated merchandise with a selling price of R2 800 (cost plus 75%) to the local school. This was done before stocktaking, but no entries were made in the books.

2. Packing material returned to The Raj, R300, was incorrectly recorded in the Trading inventory account. This error has not been corrected.

3. Stock on hand according to a physical stocktaking on 28 February 2002:
   Trading inventory, R36 370
   Packing material, R1 500

4. Part of the building was let to member M. Goetham. The monthly rent of R4 500 was increased by R540 from 1 September 2001. The rent for one month was received in advance.

5. Advertising included an amount of R3 600 paid for the period 1 January 2002 to 30 June 2002.
6. J. Molfert, a debtor, was declared insolvent. The estate paid a dividend of 40c in the rand and the balance on the account must be written off as a bad debt. A cheque for R700 was received, properly recorded and banked.

7. The provision for bad debts must be decreased to R1 045.

8. Make provision for the outstanding interest on the loan from member M. Goetham at 13% p.a. for the last quarter.

9. Equipment included an amount of R2 000 for repairs to the computers on 28 February 2002. Correct the error.

10. Make provision for depreciation on equipment at 15% p.a. on the diminished balance.

11. The income tax for the financial year was calculated at R17 500.

12. Net profit of R25 000 was made available for distribution among members.

ACTIVITY 10 (Higher Grade)

Summer Wear CC is owned by members S. Long and B. More.

INSTRUCTION

1 Complete the Balance sheet of Summer Wear CC as at 31 October 2002.
   Note: All calculations must be shown in brackets. Calculate to the nearest Rand where necessary.
2 Answer the questions that are given after the information.

The following alphabetical list of balances appeared in the ledger of Summer Wear CC at 31 October 2002:

Bank (Dr.)	6 250
Cash float	900
Creditors control	12 050
Debtors control	8 874
Distribution payable to members	22 600

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Expenses payable	4 600
Expenses prepaid	1 820
Fixed deposit: AB Bank	16 000
Fixed deposit: FBN Bank	8 000
Income receivable	1 700
Income received in advance	2 750
Loan from Long	400 000
Loan to More:	10 000
Members' contribution	470 000
Mortgage loan	85 000
Petty cash	500
Property, plant and equipment (to be calculated)	
Provision for bad debts (5% of good book debts)	
SARS (income tax) (Dr.)	1 450
Savings account	2 450
Trading inventory (to be calculated)	
Undrawn/Accumulated profits (to be calculated)	

- The accumulated profits was R22 000 on 1 November 2001.
  The net profit before tax for the year ended 31 October 2002 was R51 000.
  Two provisional tax payments of R10 925 each were paid during the year.
  There was no interim distribution paid out. However a final distribution was agreed to, but it had not yet been paid as at the end of the financial year.
- No portion of the loan from Long or the loan to More will be paid back within the next financial year.
- The fixed deposit at AB Bank matures on 1 November 2005. The other fixed deposit at FBN Bank matures on 31 January 2003.
- The following ratios were calculated as at 31 October 2002:
  Current ratio 2,1 : 1
  Acid test ratio 0,75 : 1

2 **Questions**

2.1 Comment on the liquidity position of Summer Wear CC on 31 October 2002.
2.2 Calculate the Debt/Equity ratio as at 31 October 2002.
2.3 Give one reason why you think S. Long has put R400 000 into the business in the form of a loan, rather than simply increasing his contribution to the business.
2.4 Close corporations have limited liability. Briefly explain what this means.
2.5 In certain circumstances a close corporation can lose its limited liability. Give one such circumstance.

CASH BUDGET

1. INTRODUCTION

- The main aim of any business is to make the largest possible profit.
- To achieve these goals, thorough planning and control are necessary.
- During the process of planning, certain objectives for the business are formulated. Certain actions have to be taken to reach these objectives.
- Budgeting forms an important part of this planning.
- Forecasts are based on the inflow and outflow of **cash** during a certain period.
- Results are regularly measured and adjustments made when necessary.

- The following sections will be discussed:
  - Cash budget (Sole traders & Companies)
    - Debtors collection schedule
    - Creditors payment schedule
  - Projected income statement (Sole traders & Companies)

- The Cash budget contains the following information:
  - bank balance at the beginning of the period.
  - bank balance at the end of the period.
  - expected **cash** receipts (included expected cash received from debtors).
  - expected **cash** payments (included expected cash payments to creditors)

- **Not** included in the cash budget:
  - Bad debt – it does not involve cash.
  - Depreciation – it does not involve cash.

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2. DEBTORS COLLECTION SCHEDULE (DEBTORS BUDGET)

- The debtors' collection schedule is prepared first, as the amounts expected to receive from debtors appear in the cash budget.
- Each business has a credit policy which determine the collection of debtors accounts – whether within 30, 60 or 90 days.
- When preparing the debtors collection schedule, the pattern of payments by debtors in the past is taken into consideration.
- **CREDIT SALES** figures are used when preparing the debtors collection schedule.
- When a cash discount is granted on amounts settled within a certain period, the discount is subtracted from the amount in question.

example

INFORMATION

- ABC Traders' credit sales were as follows:

	Actual	Budgeted
January	30 000	
February	32 000	
March		36 000
April		40 000
May		45 000

- Debtors usually settle their debt as follows:
  - 50% during the month of sales.
  - 30% during the month following the month of sales (after 30 days).
  - 18% during the second month after sales (after 60 days).
  - 2% irrecoverable after 90 days (bad debts).

INSTRUCTION

Calculate the expected collection from debtors for the months March, April and May.

SOLUTION

DEBTORS COLLECTION SCHEDULE					
Month	Credit Sales	Terms	Collection period		
			March	April	May
January	30 000	Jan. 50% = R15 000			
		Feb. 30% = R 9 000			
		Mar. 18% = R 5 400	5 400		
		2% bad debt = R600			
February	32 000	Feb. 50% = R16 000			
		Mar. 30% = R 9 600	9 600		
		Apr. 18% = R 5 760		5 760	
March	36 000	Mar. 50% = R18 000	18 000		
		Apr. 30% = R10 800		10 800	
		May 18% = R 6 480			6 480
April	40 000	Apr. 50% = R20 000		20 000	
		May 30% = R12 000			12 000
		Jun. 18% = R 7 200			
May	45 000	May 50% = R22 500			22 500
		Jun. 30% = R13 500			
		Jul. 18% = R 8 100			
Receipts from debtors			33 000	36 560	40 980

Alternative method

DEBTORS COLLECTION SCHEDULE				
Month	Credit Sales	Collection period		
		March	April	May
January	30 000	5 400		
February	32 000	9 600	5 760	
March	36 000	18 000	10 800	6 480
April	40 000		20 000	12 000
May	45 000			22 500
Receipts from debtors		33 000	36 560	40 980

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3. CREDITORS PAYMENT SCHEDULE (CREDITORS BUDGET)

- Credit purchases figures are used when preparing the creditors payment schedule.

example

INFORMATION

	Actual information		Budgeted information		
	Nov. 2003	**Dec. 2003**	**Jan. 2004**	**Feb. 2004**	**Mar. 2004**
Cash purchases	10 000	12 000	10 000	13 000	14 000
Credit purchases	12 000	13 000	11 000	12 000	13 000

- Creditors are paid in full in the month following the purchases.

INSTRUCTION

Calculate the expected payments to creditors for credit purchases for the budget period January 2004 to March 2004.

SOLUTION

CREDITORS PAYMENT SCHEDULE					
Month	**Credit Purchases**	**Terms**	**Payments**		
			January	**February**	**March**
November	12 000	30 days – December	-	-	-
December	13 000	30 days – January	13 000		
January	11 000	30 days – February		11 000	
February	12 000	30 days – March			12 000
March	13 000	30 days – April	-	-	-
Payments to creditors			13 000	11 000	12 000

example

INFORMATION

- Sales forecast
  - January 2004 R100 000
  - February 2004 R111 000
  - March 2004 R125 000
- Balances at 31 December 2003
  - Trading stock R70 000
  - Creditors R58 000
- Cost of sales is equal to 60% on turnover.
- Cash purchases of trading stock amounts to 30% of total purchases.
- All credit purchases are payable in the month following the month of purchase.

INSTRUCTION

Prepare the creditors payment schedule for January to March 2004.

SOLUTION

CREDITORS PAYMENT SCHEDULE					
Month	**Credit Purchases**	**Terms**	**Payments**		
			January	**February**	**March**
December	Creditors balance (3)	January	58 000		
January	42 000 (2)	30 days – February		42 000	
February	46 2000	30 days – March			46 200
March	52 500	30 days – April	-	-	-
Payments to creditors			58 000	42 000	46 200

Explanation:

Month	**Total sales (turnover)**	**Purchases = 60% of total sales (1)**	**Credit purchases = 70% of purchases(2)**
January	100 000	(60% x 100 000) 60 000	(70% x 60 000) 42 000
February	110 000	(60% x 110 000) 66 000	(70% x 66 000) 46 200
March	125 000	(60% x 125 000) 75 000	(70% x 75 000) 52 500

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38 (1) Cost of sales (purchases) = 60% of turnover (total sales)
Therefore purchases = 60% of sales

(2) Cash purchases = 30% of total purchases
Therefore credit purchases = 70% of total purchases.

(3) The balance of the creditors on 31 December 2003 = R58 000.
This must be paid January 2004.

4. CASH BUDGET

example

INSTRUCTION

Use the following information of ABC Traders to draw up the:

a) Debtors Collection Schedule for August to October 2004.
b) Cash budget for the period 1 August to 31 October 2004.

INFORMATION

	Actual information		Budgeted information		
	June	July	August	September	October
	R	R	R	R	R
Cash sales	15 000	20 000	19 000	21 000	25 000
Credit sales	19 000	24 000	23 000	25 000	19 000
Wages	7 000	7 000	7 000	7 700	7 700
Rent income	2 000	2 000	2 000	2 200	2 200
Credit purchases	15 000	20 000	20 000	22 000	24 000
Income tax				8 000	
Other expenses	11 000	11 000	11 000	12 000	12 000
Depreciation	300	300	300	300	300
Drawings	6 000	6 000	6 000	6 000	6 000

Other information

- ABC Traders had a favourable bank balance of R14 300 on 1 August 2004.
- Debtors normally paid their accounts as follows:
  - 60% one month after date of sale.
  - 38% two months after date of sale.
  - 2% written off as irrecoverable after 90 days of sale.
- Creditors are paid in full one month after purchase to take advantage of 5% discount offered.
- Other expenses are paid during the month they occur.
- The owner withdraws R4 000 cash per month. In addition to this he also draws trading stock.

SOLUTION

ABC TRADERS

DEBTORS COLLECTION SCHEDULE

Month	Credit Sales	Terms	Collection period		
			August	September	October
June	19 000	19 000 x 60% (July) x 38% (Aug) =7 220	7 220		
July	24 000	24 000 x 60% (Aug)=14 400 x 38% (Sept)= 9 120	14 400	9 120	
August	23 000	23 000 x 60% (Sept)=13 800 x 38% (Oct) = 8 740		13 800	8 740
September	25 000	25 000 x 60% (Oct) 15 000 x 38% (Nov)			15 000
October	19 000	19 000 x 60% (Nov) x 38% (Dec)			
Receipts from debtors			21 620	22 920	23 740

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CASH BUDGET FOR THE PERIOD AUGUST TO OCTOBER 2004

	August	September	October
Cash receipts			
Cash sales	19 000	21 000	25 000
Cash from debtors	21 620	22 920	23 740
Rent income	2 000	2 200	2 200
Total receipts	42 620	46 120	50 940
Cash payments			
Payments to creditors	19 000	19 000	20 900
Wages	7 000	7 700	7 700
Income tax	-	8 000	-
Drawings	4 000	4 000	4 000
Other operating expenses	11 000	12 000	12 000
Total payments	41 000	50 700	44 600
Cash surplus (shortfall)	1 620	(4 580)	6 340
Bank opening balance (overdraft)	14 300	15 920	11 340
Bank closing balance (overdraft)	15 920	11 340	17 680

Explanations:

1. Only **cash receipts** and **cash payments** are shown.
2. Depreciation is not shown, as it is **not** a cash payment.
3. Drawings: only the R4 000 **cash drawings** is shown. The balance is trading stock, therefore not a cash payment.
4. Payments to creditors: Paid after one month **less** 5% discount.
5. Cash surplus (shortfall) – Cash receipts **less** cash payments.
6. Bank opening balance as on 1 August 2004 is the opening balance on 1 August. Cash surplus added to bank balance equals Bank closing balance on 31 August. Bank closing balance on 31 August (R15 920) is the opening balance on 1 September.

ACTIVITY 11

You operate a tuckshop, Pembroke Pie, as part of your entrepreneurship programme at school.

INSTRUCTION

In order to renew your trading license for next year you have to submit a budget for February and March 2003, including a debtors' collection schedule.

INFORMATION

1. Your business runs from 1 February to 30 November each year, for 10 months.

2. The following figures appeared in your financial statements on 30 November 2002:

Sales	R90 000
Cost of sales	R60 000
Bank (Dr.)	R2 000
Creditors control	R 0

3. In order to increase your turnover you have decided to sell on credit with effect from 1 February 2003. You therefore expect your turnover (sales) to increase by 50% this year, with an even distribution throughout the year.

4. You expect your cash sales to amount to 60% of your sales.

5. From surveys you have done, you expect 30% of your debtors to pay within the same month, and to encourage this you will allow a 10% discount. The balance you expect to receive one month later.

6. The mark-up % on goods sold will be maintained at 50% on cost.

7. Purchases of trading stock bought in January, so that you can start trading in February,

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40 amounted to R11 000.

8. All purchases are on credit and are payable one month later (30 days).
9. You will purchase whatever you sell on a monthly basis in order to maintain your stock balance at R11 000.

10. You will have to pay the school rent to the value of R200 per month.

11. In order to assist you, you employ fellow pupils to do your selling. You pay them a commission of 10% on total sales, payable on the last day of the month.

ACTIVITY 12 (Higher Grade)

The given information was taken from the records of Makaya Traders.

INSTRUCTION

1. Complete the Cash payments section of the Cash budget for the period 1 November 2002 to 31 December 2002.
2. Answer the following questions:
   - 2.1 Name two operating expenses, taken from the given information, that appear in the Income statement, but not in the Cash budget.
   - 2.2 A business can sell its merchandise for cash or on credit or both. How does Makaya Traders sell its merchandise?

2.3 Calculate the following:
   - 2.3.1 Cash received from debtors during November 2002.
   - 2.3.2 Bad debts written off during the budgeted period.
   - 2.3.3 Discount allowed during December 2002.

INFORMATION

1. Partially completed Cash budget

	November	December
TOTAL RECEIPTS	168 000	120 000
CASH PAYMENTS		
Cash purchases	27 000	?
Payments to creditors	38 250	?
Other operating expenses	14 000	14 000

2. Balances on 1 November 2002

Equipment at cost price	80 000
Accumulated depreciation on equipment	34 000
Bank overdraft	40 000
Accrued expenses (Salaries)	3 000

3. Extract from Income statement for the year ended 31 October 2002
   Operating expenses

Salaries	180 000
Depreciation	4 600
Advertising	21 500
Discount allowed	11 900
Bad debts	12 000
Other operating expenses	168 000

4. Total sales: 2002

Actual			Budgeted	
August	**September**	**October**	**November**	**December**
R60 000	R70 000	R85 000	R90 000	R94 000

Cost of sales is equal to 75% of the turnover.

The monies due by the debtors from the above sales are collected as follows:
• 40% in the month of sale, to take advantage of the 12½% settlement discount allowed

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for prompt payment.
- 35% in the month following the sale (after 30 days).
- 20% in the second month following the sale (after 60 days).
- The rest is written off as irrecoverable in the third month after the sale (after 90 days).

5. 40% of the purchases are effected in cash. Creditors for credit purchases are paid in the month following the purchases (after 30 days). Trading inventory on hand is maintained through monthly purchases.

6. Advertising costs are based on projected monthly sales and are paid in the same month by cheque. The advertising costs are expected to increase on 1 December 2002 from 3% to 4% of the sales.

7. The business has 5 employees who are paid R3 000 each per month. Salaries are paid by cheque. The salary due for October 2002 will be paid in November 2002.

8. Other operating expenses will amount to R14 000 per month.

9. A new computer valued at R8 700 will be bought on credit during November 2002. The amount will be paid in three equal monthly installments starting 15 December 2002.

5. PROJECTED INCOME STATEMENT

The following must be taken into consideration when preparing a projected income statement:

1. Take as starting point the actual income statement of the previous year.
2. Divide the figures by 12 to get the monthly figures.
3. Take the following into account:
    - 3.1 Mark-up on cost of sales.
    - 3.2 Increases in some expenses/income:
        - wages
        - rent income
        - interest rate (increase or decrease)
    - 3.3 Additional purchase or sale of fixed assets – it affects the depreciation.
    - 3.4 Expected increase or decrease in sales.

INSTRUCTION (Example)
Prepare a forecast monthly Income Statement for the three month period ended 31 March 2004.

INFORMATION

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

Sales		360 000
Cost of sales		(210 000)
Gross profit		150 000
Other operating income		24 000
Rent income	24 000	
Gross operating income		174 000
Operating expenses		(138 000)
Wages	84 000	
Advertising	7 200	
Depreciation on equipment	4 800	
Sundry expenses	42 000	
Operating profit (loss)		36 000
Interest income		-
Profit before interest expense		36 000
Interest expense (Interest on loan)		(3 600)
Net profit (loss) for the year		32 400

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42 **Other information**

1. Mark-up on cost of sales will be 100% in 2004.
2. Advertising will be maintained at 2% of expected turnover.
3. Sales are expected to decrease by 20% for January only and is expected to increase by 10% per month from March onward.
4. A payment of R5 000 was made on the mortgage loan on 31 December 2003. The interest rate of 18% remains the same.
5. Depreciation on equipment is expected to remain the same.
6. Sundry expenses is expected to increase by 10% in 2004.
7. The monthly rent will increase by 10% from 1 March 2004.

SOLUTION :
PROJECTED INCOME STATEMENT FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2004

	January	February	March	Total
Sales	24 000	30 000	33 000	87 000
Cost of sales	(12 000)	(15 000)	(16 500)	(43 500)
Gross profit	12 000	15 000	16 500	43 500
Other operating income (Rent)	2 000	2 000	2 200	6 200
Gross operating income	14 000	17 000	18 700	49 700
Operating expenses	(11 730)	(11 850)	(11 910)	(35 490)
Wages	7 000	7 000	7 000	21 000
Advertising	480	600	660	1 740
Depreciation	400	400	400	1 200
Sundry expenses	3 850	3 850	3 850	11 550
Operating profit (loss)	2 270	5 150	6 790	14 210
Interest income	-	-	-	-
Profit before interest expense	2 270	5 150	6 790	14 210
Interest expense (Interest on loan)	(225)	(225)	(225)	(675)
Net profit (loss)	2 045	4 925	6 565	13 535

Calculations

(1) Sales

R360 000 ÷ 12 = R30 000 p.m.
Jan. = R30 000 – 20% = R30 000 – R6 000 = R24 000
Feb. = the same
Mar. = R30 000 + 10% = R30 000 + R3 000 = R33 000

(2) Cost of sales

Mark-up will be 100%; Cost of sale = $\frac{1}{2}$ of turnover

Jan. = $\frac{1}{2}$ x R24 000 = R12 000 (or $\frac{24000}{1} \times \frac{100}{200}$)

Feb. = $\frac{1}{2}$ x R30 000 = R15 000 (or $\frac{30000}{1} \times \frac{100}{200}$)

Mar. = $\frac{1}{2}$ x R33 000 = R16 500 (or $\frac{33000}{1} \times \frac{100}{200}$)

(3) Rent

R24 000 ÷ 12 = R2 000 p.m.
Jan. = the same
Feb. = the same
Mar. = R 2 000 + 10% = R2 000 + 200 = R2 200

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(4) Wages R80 000 ÷ 12 = R7 000 p.m. (stays the same)

(5) Advertising
Jan. = R24 000 x 2% = R480
Feb. = R30 000 x 2% = R600
Mar. = R33 000 x 2% = R660

(6) Depreciation R4 800 ÷ 12 = R400 (stays the same)

(7) Sundry expenses
R42 000 ÷ 12 = R3 500
Jan. = R3 500 + 10% = R3 500 + 350 = R3 850
Feb. = R3 850
Mar. = R3 850

(8) Interest on loan
Interest = R3 600 = 18%
Amount of loan: R3 600 x $\frac{100}{18}$ = R20 000
Amount of loan – 1 Jan. 2004: R20 000 – R5 000 = R15 000
Interest = 15 000 x $\frac{18}{100} \times \frac{1}{12}$ = R225 p.m.

ACTIVITY 13 **(Higher Grade)**

You are given the Cash budget of Small Toys Ltd. for December 2001 to February 2002, and other related information. Their financial year ends on 28 February.

INSTRUCTION
1 Prepare the Income forecast up the "Net profit before tax" for each month.
2 Answer the questions given at the end. All calculations must be rounded off to two decimal points.

INFORMATION

CASH BUDGET OF SMALL TOYS LTD: DECEMBER 2001 TO FEBRUARY 2002

	December	January	February
Cash receipts			
Cash sales	40 000	32 000	26 000
Cash from debtors	55 000	50 000	60 000
Loan: Nedbank	-	-	84 000
Rent income	2 000	2 500	2 500
Total receipts	97 000	84 500	172 500
Cash payments			
Inventory bought cash	64 000	51 200	41 600
Payments to creditors	17 500	16 000	12 800
Interest on loan	-	-	1 120
Other cash expenses	6 100	6 500	6 800
Vehicle bought	-	126 000	-
Income tax	-	-	16 800
Dividends	-	-	15 000
Total payments	87 600	199 700	94 120
Cash surplus (shortfall)	9 400	(115 200)	73 380
Bank opening balance (overdraft)	45 000	54 400	(60 800)
Bank closing balance (overdraft)	54 400	(60 800)	17 580

Additional information
(i) 40% of sales are for cash.
(ii) The company aims to keep a fixed base inventory level of R320 000. Goods are to be replaced on a monthly basis.
(iii) Inventory is the only credit purchase. 20% of inventory is bought on credit and creditors allow 30 days credit. The business will comply with these terms.
(iv) The business owns equipment that cost R35 000. They plan to buy their only vehicle on 1 January 2002. Equipment is depreciated at a rate of R200 per month and vehicles at

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25% on cost.

(v) Their only loan will be taken out on 1 February 2002 and it will be repaid in full in 2007. Interest is to be repaid monthly.

2 Questions

1. Small Toys Ltd. anticipate needing an overdraft in January 2002. What can be done to avoid needing the overdraft? Provide one suggestion.

2. What does the tax payment of R16 800 represent?

3. What is the intended mark-up percentage on cost of sales?

4. If the expected yearly cost of sales is R768 000,calculate the number of months for which there is enough goods on hand.

5. Considering their stock buying policy, comment on whether you think that this is acceptable and necessary for this business.

6. Give three disadvantages of keeping too much stock.

7. Calculate the expected percentage of net profit before tax on turnover for December 2001 and February 2002.

8. Give three reasons why the net profit has decreased over three months.

9. If the debt-equity ratio on 28 February 2002 is 0,16 : 1, what is the value of the shareholders' equity on this date?

10. What is the annual interest rate charged on the loan?

11. Small Toys Ltd. are unsure as to whether the strategy of taking out a loan was the correct one in financing the company in the long term.

    a) Calculate the expected return on total capital employed for 2002 assuming that net profit for 2002 will be R105 000 and that the shareholders' equity and the loan will remain constant. (Capital employed = shareholders' equity + long-term liabilities)

    b) Explain whether you think it is wise for Small Toys Ltd. to take out the loan. Quote suitable calculations/ratios to support your answer.

    c) Give one alternative source of finance that they can use if they decide not to take out the loan.

END

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SOLUTIONS / OPLOSSINGS

ACTIVITY 1 OEFENING

GROENPUNT SPORTKLUB / *GROENPUNT SPORTS CLUB*

LEDEGELD /*MEMBERSHIP FEES*

2000 Jan. 1	Opgelope inkomste/ *Accrued income*		400	2000 Jan. 1	Vooruitontvange Inkomste/*Income received in advance*		600
Dec. 31	Vooruitontvange Inkomste /*Income received in advance*		500	Dec. 31	Bank (300 + 5 200 + 500)		6 000
	Inkomste-en uitgawe/ *Income and expenditure*	(2)	6 100		Ledegeld afgeskryf/ *Membership fees written off*	(1)	100
					Opgelope inkomste/ *Accrued income*		300
			7 000				**7 000**

GROENPUNT SPORTKLUB / *GROENPUNT SPORTS CLUB*
STAAT VAN INKOMSTE EN UITGAWE VIR DIE JAAR GEËNDIG 31 DESEMBER 2000
STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 31 DECEMBER 2000

ONTVANGSTE / *RECEIPTS*			**BETALINGS / *PAYMENTS***		
Saldo / Balance (2000/01/01)			Skryfbehoeftes / *Stationery*		1 100
Bank		10 821	Lone/*Wages*		6 000
Ledegeld/ *Membership fees*:		6 000	Reparasies/*Repairs*		3 890
1999	300		Huur uitgawe / *Rent expense*		7 700
2000	5 200		Honorarium		500
2001	500		Affiliasiefooie/ *Affiliation fees*		300
Intreegeld/ *Entrance fees*		350	Krediteure / *Creditors*		1 040
Donasies / *Donations*		3 550	Toerusting/ *Equipment*		950
Verversings verkoop / *Refreshments sold*		5 900	Verversings gekoop/ *Refreshments purchased*		1 200
			Bankkoste/ *Bank charges*		1 189
			Saldo/Balance (2000/12/31)		
			Bank		2 752
		26 621			26 621

(1) Opgelope 1999 R400 – betaal R300 = R100 /*Accrued 1999 R400 – paid R300 = R100*
(2) Saldo / *Balance of account*

ACTIVITY 2 OEFENING

PIRATES SOKKER KLUB / *PIRATES SOCCER CLUB*
ALGEMENE GROOTBOEK / *GENERAL LEDGER*

LEDEGELD / *MEMBERSHIP FEES*

2000 Jan. 1	Opgelope inkomste/ *Accrued income*		400	2000 Dec. 31	Bank (300 + 28 600 + 500)		29 400
Dec. 31	Vooruitontvange inkomste/ *Income received in advance*		500		Ledegeld afgeskryf/ *Membership fees written off*		100

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	Inkomste-en uitgawe *Income and expenditure*		28 900		Opgelope inkomste/ *Accrued income*		200
					Honorarium		100
			29 800				**29 800**

INTREEGELD / *ENTRANCE FEES*

2000 Dec. 31	Inkomste-en uitgawe *Income and expenditure*		1 700	2000 Dec.] 31	Bank		1 700

VERVERSINGS / *REFRESHMENTS*

2000 Dec. 31	Koste van verversings / *Cost of Refreshments*		2 489	2000 Dec. 31	Verkoop van verversings /*Sale of refreshments*		4 640
	Wins met verkoop van verversings / *Profit on sale of refreshments*		2 493		Bank		103
					Debiteurekontrole/ *Debtors control*		239
			4 982				**4 982**

PIRATES SOKKER KLUB / *PIRATES SOCCER CLUB*
STAAT VAN INKOMSTE EN UITGAWES VIR DIE JAAR GEËNDIG 31 DESEMBER 2000
STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR ENDED 31 DECEMBER 2000

Inkomste /Income		44 449
Inkomste van ledegeld/ Income from membership fees	15 549	
Intreegeld/Entrance fees	1 700	
Wins op verkoop van verversings / Profit on sale of refreshments	2 493	
Wins met jaarfunksie/Profit on annual function	2 482	
Hekgelde / Gate fees	3 650	
Donasies / Donations	5 224	
Uitgawes / Expenses		(34 141)
Ledegeld afgeskryf/Membership fees written off	100	
Lone/Wages (12 610 – 200)	12 410	
Affiliasiefooie/Affiliation fees (250 – 150)	100	
Versekering/Insurance (2 100 – 150)	1 950	
Skryfbehoeftes/Stationery (1 187 – 247)	940	
Huuruitgawe/Rent expense (3 060 + 1 020)	4 080	
Bankkoste/Bank charges (1 234 + 85)	1 319	
Honorarium (1 100 + 100)	1 200	
Reparasies/Repairs (6 257 + 250)	6 507	
Waardevermindering/Depreciation	1 535	
Pryse vir toernooi/Prizes – tournament	4 000	
Oorskot van algemene aktiwiteite/ Surplus from general activities		10 308
Rente-inkomste/Interest income (1 680 + 560)		2 240
Oorskot voor rente-uitgawe/ Surplus before interest expense		12 548
Rente-uitgawe/Interest expense (300 + 150 + 150 = 600; 450 + 150 = 600)		(600)
Netto surplus vir die jaar/Net surplus for the year		11 948

ACTIVITY 3 OEFENNG

LEDEGELD / *MEMBERSHIP FEES*

2000 Jan. 1	Opgelope inkomste *Accrued income*		2 880	2000 Jan. 1	Vooruitontvange inkomste / *Income received in advance*		900
Dec. 31	Bank (V/T) *Bank (R/D)*		180	Dec. 31	Bank / *Bank*		16 410
	Vooruitontvange inkomste / *Income received in advance*		1 620		Ledegeld afgeskryf/ *Membership fees written off*		720
	Inkomste-en uitgawe/ *Income and expenditure*				Opgelope inkomste/		

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			16 770		*Accrued income*		3 420
			21 450				**21 450**

UMGENI SPORTKLUB / *UMGENI SPORTS CLUB*
STAAT VAN INKOMSTE EN UITGAWES VIR DIE JAAR GEËINDIG 31 DESEMBER 2000
STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR ENDED 31 DECEMBER 2000

	Notes	R	R
Inkomste/*Income*			51 245
Inkomste van ledegeld/*Income from membership fees*		16 770	
Wins met verkoop van sweetpakke/*Profit on sale of tracksuits*		3 600	
Intreegeld/*Entrance fees*		4 125	
Wins met toernooi/*Profit on tournament*(15 350 – 9 200)		6 150	
Donasies/*Donations*		20 600	
Uitgawes/*Expenses*			(25 006)
Bankkoste/*Bank charges* (1 090 + 234)		1 324	
Ledegeld afgeskryf/*Membership fees written off* (2 880 – 2 160)		720	
Waardevermindering/*Depreciation*		1 670	
Water en elektrisiteit/*Water and electricity* (5 950 + 475)		6 425	
Skryfbehoeftes/*Stationery* (335 + 1 150 – 378)		1 107	
Telefoon/*Telephone* (2 620 – 260)		2 360	
Honorarium/*Honorarium*		1 200	
Lone/*Wages*		10 200	
Oorskot van algemene aktiwiteite ***Surplus from general activities***			26 239
Rente-inkomste/*Interest income*	1		994
Oorskot voor rente-uitgawe ***Surplus before interest expense***			27 233
Rente-uitgawe /*Interest expense*	2		(5 250)
Netto surplus vir die jaar ***Net surplus for the year***			21 983

NOTAS TOT DIE FINANSIËLE STATE / *NOTES TO FINANCIAL STATEMENTS*

1. Rente-inkomste/Beleggingsinkomste ***Interest income/Investment income***	
Van beleggings / *From investments*	960
Van spaarrekening /*From savings account*	34
	994
2. Rente-uitgawe/Finaniseringskoste **Interest expense / *Finance costs***	
Op verbandlening / *On mortgage bond*	5 250
	5 250

3. Eiendom, aanleg en toerusting ***Property, plant and equipment***	**Grond en geboue** ***Land and Buildings***	**Toe-rusting** ***Equip-ment***	**Totaal** ***Total***
Kosprys/*Cost*	100 700	20 000	120 700
Opgehoopte waardevermindering *Accumulated depreciation*	-	(3 800)	(3 800)
Drawaarde einde van vorige jaar *Carrying value end of previous year*	100 700	16 200	116 900
Bewegings / *Movement*			
Verkrygings teen kosprys / *Additions at cost*	36 000	2 000	38 000
Verkoop teen drawaarde / *Disposals at carrying value*	-	-	-
Waardevermindering vir die jaar/*Depreciation for the year*	-	(1 670)	(1 670)

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Drawaarde einde van huidige jaar *Carrying value end of current year* **	136 700	16 530	153 230
Kosprys*Cost*	136 700	22 000	158 700
Opgehoopte waardevermindering*Accumulated Depreciation*	-	(5 470)	(5 470)
**	136 700	16 530	153 230
4. Kontant en kontantekwivalente ***Cash and cash equivalents***			
Spaarrekening / *Savings account* (375 + 34)			409
Bank / *Bank* (12 765 + 64 645 – 76 250 – 234)			926
			1 335
5. Rekeninge betaalbaar (krediteure) ***Payables (creditors)***			
Krediteure / *Creditors* (5 400 – 21 000 + 36 000)			20 400
Opgelope uitgawes / *Accrued expenses* (475 + 2 250)			2 725
Vooruitontvange inkomste / *Income received in advance*			1 620
			24 745
6. Kapitaalfondse / *Capital funds*			
Saldo op 1999/12/31 / *Balance on 1999/12/31*			95 000
Netto surplus vir die jaar / *Net surplus for the year*			21 983
Saldo op 2000/12/31 / *Balance on 2000/12/31*			116 983

Berekeninge / *Calculations*

(1) Lede se lidmaatskap beëindig / *Members' membership terminated*:

$(720 \div 180) = 4$

(2) Inkomste: ledegeld / *Income: membership fees*:
[(85 – 4) x 180] + [20 x 90] + [13 x 30] = 16 770

(3) Waardevermindering op toerusting / *Depreciation on equipment*:

$[(20\,000 - 3\,800) \times 10\% \times 1] + [2\,000 \times 10\% \times \frac{3}{12}] = 1\,620 + 50 = 1\,670$

(4) Beleggingsinkomste / *Interest on investment*

$(6\,000 \times 12\% \times \frac{6}{12}) + (10\,000 \times 12\% \times \frac{6}{12}) = 960$

Rente op belegging/*Interest on investment*			
I&U/*I&E*	960	VI/*IRA*	120
		B/*B*	600
		OI/*AI*	240
	960		960

(5) Rente op verbandlening / *Interest on mortgage bond*

$[3\,000 + (30\,000 \times 15\% \times \frac{6}{12})] = 5\,250$

(6) Sweetpakke / *Tracksuits*

Sweetpakke / *Tracksuits*			
V/*I*	2 425	B/*B*	7 560
B/*B*	4 660	V/*I*	3 125
W/*P*	3 600		
	10 685		10 685

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ACTIVITY 4 OEFENING

ALGEMENE GROOTBOEK VAN ABC BPK.
GENERAL LEDGER OF ABC LTD.

Balansstaat rekeninge-afdeling / *Balance sheet accounts section*

GEWONE AANDELEKAPITAAL / *ORDINARY SHARE CAPITAL*

2004 Jun. 30	Saldo *Balance*	c/d	380 000	2003 Jul. 1	Saldo *Balance*	b/d	300 000
				15	Bank / *Bank*	(1)	80 000
			380 000				**380 000**
				2004 Jul. 1	Saldo *Balance*	b/d	380 000

GEWONE AANDELEPREMIE / *ORDINARY SHARE PREMIUM*

2004 Jun. 30	Saldo *Balance*	c/d	80 000	2003 Jul. 1	Saldo *Balance*	b/d	40 000
				15	Bank / *Bank*	(1)	40 000
			80 000				**80 000**
				2004 Jul. 1	Saldo *Balance*	b/d	80 000

OPGEHOOPTE WINS / *RETAINED INCOME*

2004 Jun. 30	Verdelingsrekening *Appropriation account*	(A)	50 000	2003 Jul. 1	Saldo *Balance*	b/d	50 000
	Saldo *Balance*	c/d	203 675	2004 Jun. 30	Verdelingsrekening *Appropriation account*	(D)	203 675
			253 675				**253 675**
				2004 Jul. 1	Saldo *Balance*	b/d	203 675

SAID (Inkomstebelsting) / *SARS (Income tax)*

2003 Jul. 15	Bank *Bank*	(2)	20 000	2003 Jul. 1	Saldo *Balance*	b/d	20 000
31	Bank *Bank*	(3)	50 000	2004 Jun. 30	Inkomstebelasting *Income tax*	(5)	180 825
Des. *Dec.* 30	Bank *Bank*	(4)	60 000				
2004 Jun. 30	Saldo *Balance*	c/d	70 825				
			200 825				**200 825**
				2004 Jul. 1	Saldo *Balance*	b/d	70 825

AANDEELHOUERS VIR DIVIDENDE / *SHAREHOLDERS FOR DIVIDENDS*

2003 Jul. 15	Bank *Bank*	(2)	10 000	2003 Jul. 1	Saldo *Balance*	b/d	10 000
2004 Jun. 30	Saldo *Balance*	c/d	57 000	2004 Jun. 30	Gewone aandele dividende/*Ordinary share dividends*	(4)	57 000
			67 000				**67 000**
				2004 Jul. 1	Saldo *Balance*	b/d	57 000

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50 **Nominale rekeninge afdeling / *Nominal accounts section***

INKOMSTEBELASTING / *INCOME TAX*

2004 Jun. 30	SAID(Inkomstebelas-*Ting)/SARS (Income tax)*	(5)	**180 825**	2004 Jun. 30	Verdelingsrekening/ *Appropriation account*	(B)	**180 825**

GEWONE AANDELE-DIVIDENDE / *ORDINARY SHARE DIVIDENDS*

2003 Des. *Dec.* 31	Bank/ *Bank* (190 000 x 15c)	(3)	28 500	2004 Jun. 30	Verdelingsrekening/ *Appropriation account*	(C)	85 500
2004 Jun. 30	Aandeelhouers vir dividende/*Shareholders for dividends*	(4)	57 000				
			85 500				**85 500**

Finale rekeninge-afdeling / *Final accounts section*

VERDELINGSREKENING / *APPROPRIATION ACOUNT*

2004 Jun. 30	Inkomstebelasting *Income tax*	(B)	180 825	2004 Jun. 30	Wins- en verliesrek. *Profit and loss*	(5)	420 000
	Gewone aandele dividende/*Ordinary share dividends*	(C)	85 500		Opgehoopte wins *Retained income*	(A)	50 000
	Opgehoopte wins *Retained income*	(D)	203 675				
			470 000				**470 000**

EXPLANATIONS

(1) Ordinary share capital: 40 000 x R2 = R80 000
Ordinary share premium: 40 000 x R1 = R40 000

(2) SARS: Pay the R20 000 balance b/d from the previous year.
Shareholders: Pay the R10 000 balance b/d from the previous year.

(3) SARS: Pay provisional tax R50 000.
Dividends: Pay interim dividends:
Calculate number of shares:
300 000 ÷ R2 = 150 000 shares
\+ 40 000 new shares
190 000 shares 190 000 x 15c = R28 500

(4) SARS: Pay provisional tax R60 000.
Dividend: 190 000 x 30c = R57 000

(5) Calculation of Income tax:
• Dividends for the year: R57 000 + R28 500 = R85 500 x 15% = R 12 825
• Net profit: R420 000 = 420 000 x 40% = 168 000
Total income tax R 180 825

(A) Balance of Retained Income transferred to the Appropriation account.
(B) Income tax transferred to the Appropriation account.
(C) Ordinary Share Dividends transferred to the Appropriation account.
(D) New Retained Income (balance of Appropriation account) transferred to Retained Income account.

VERDUIDELIKINGS

(1) Gewone aandelekapitaal – 40 000 x R2 = R80 000
Gewone aandelepremie - 40 000 x R1 = R40 000

(2) SAID – Betaal die saldo van R20 000 van die vorige jaar.
Aandeelhouers vir dividende – Betaal die saldo van R10 000 afgebring van die vorige jaar.

(3) SAID – Betaal voorlopige belsting R50 000
Dividende – Betaal interim dividend.
Berekening van aantal aandele- R300 000 ÷ R2 = 150 000 aandele
\+ 40 000 aandele
= 190 000 aandele
Dividende = 190 000 x 15c = R28 500

(4) SAID – Betaal voorlopige belasting R60 000
Dividend – 190 000 x 30c = R57 000

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(5) Berekening van inkomstebelasting
*Dividende vir die jaar - R57 000 + R28 500 = R 85 500 x 15% = R 12 825
Netto inkomste - R420 000 = R420 000 x 40% = R 168 000
Totale inkomstebelasting betaalbaar =R 180 825

(A) Saldo van Opgehoopte wins oorgedra na Verdelingsrekening.
(B) Inkomstebelasting oorgedra na Verdelingsrekening.
(C) Gewone aandeledividende oorgedra na Vedelingsrekening.
(D) Nuwe saldo van Verdelingsrekening oorgedra na Opgehoopte winsrekening.

ACTIVITY 5 OEFENING

ERNEST BPK. / *ERNEST LIMITED*
INKOMSTESTAAT VIR DIE JAAR GEËINDIG 31 OKTOBER 2002
INCOME STATEMENT FOR THE YEAR ENDED 31 OCTOBER 2002

		R	R
Verkope/*Sales*			771 600
Koste van verkope/*Cost of sales*			(486 000)
Bruto Wins/*Gross Profit*			285 600
Ander Bedryfsinkomste/*Other Operating Income*			26 000
Kommissie-inkomste/*Commission income*		24 700	
Handelsvoorraad-surplus/*Trading stock surplus*		1 000	
Voorsiening vir oninbare skulde-aansuiwering / *Provision for bad debts adjustment*		300	
Bruto Bedryfsinkomste/*Gross Operating Income*			311 600
Bedryfsuitgawes/*Operating Expenses*			(183 840)
Oninbare skulde/*Bad debts*		1 540	
Advertensies/*Advertising*		6 300	
Huuruitgawe/*Rent expense*		50 000	
Ouditfooi/*Audit fees*		5 000	
Direkteursvergoeding/*Directors' fees*		30 000	
Salarisse en lone/*Salaries and wages*		91 000	
Bedryfswins / *Operating Profit*			127 760
Rente-inkomste (debiteure-rekeninge) *Interest income (debtors' accounts)*			1 700
Wins voor rente-uitgawe/*Profit before interest expense*			129 460
Rente-uitgawe (Rente op verbandlening) *Interest expense (Interest on mortgage loan)*			(16 500)
Wins voor belasting / *Profit before tax*			112 960
Belasting/*Taxation*			(40 000)
Netto wins vir die jaar/*Net Profit for the year*			**72 960**

ACTIVITY 6 OEFENING

HAPPY VALLEY BEPERK / *HAPPY VALLEY LIMITED*
BALANSSTAAT OP 28 FEBRUARIE 2001 / *BALANCE SHEET AT 28 FEBRUARY 2001*

	Notas/*Notes*	R	R
BATES/*ASSETS*			
NIE-BEDRYSBATES/*NON-CURRENT ASSETS*			516 896
Vaste bates / Tasbare bates / Eiendom / Aanleg / Toerusting *Fixed assets / Tangible assets / Property / Plant / Equipment*	3	516 896	
Finansiële bates / *Financial assets*			
Vaste deposito (vervaldatum meer as 12 maande) *Fixed deposits (maturation period longer than 12 months)*		-	

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BEDRYSBATES / *CURRENT ASSETS*			153 722
Voorraad/*Inventories*	4	72 136	
Handels-en ander debiteure/*Trade and other debtors*	5	34 490	
Kontant en kontantekwivalente/*Cash and cash equivalents*	6	47 096	
TOTALE BATES / *TOTAL ASSETS*			**670 618**
EKWITEIT EN LASTE / AANSPREEKLIKHEDE *EQUITY AND LIABILITIES*			
KAPITAAL EN RESERWES / *CAPITAL AND RESERVES*			470 000
Gewone aandelekapitaal / ekwiteit /*Ordinary share capital / equity*	7	300 000	
Aandelepremie / *Share premium*	8	80 000	
Opgehoopte wins Behoue inkomste *Accumulated profit / Retained income*	9	90 000	
NIE-BEDRYSLASTE / *NON-CURRENT LIABILITIES*			110 000
Verbandlening: ERH Bank *Mortgage bond: ERH Bank*		110 000	
BEDRYFSLASTE / *CURRENT LIABILITIES*			90 618
Handels –en ander krediteure/*Trade and other creditors*	10	90 618	
Oortrokke bank / *Bank overdraft*		-	
TOTALE EKWITEIT EN LASTE / AANSPREEKLIKHEDE *TOTAL EQUITY AND LIABILITIES*			**670 618**

NOTAS TOT DIE FINANSIËLE STATE OP 28 FEBRUARIE 2001
NOTES TO THE FINANCIAL STATEMENTS AT 28 FEBRUARY 2001

3 Vaste bates / Tasbare bates / Eiendom,aanleg en toerusting/ ***Fixed Assets / Tangible assets / Property, plant and equipment***	**Grond en geboue/** ***Land and buildings***	**Voertuie** ***Vehicles***	**Toerus-ting/** ***Equip-ment***	**Totaal** ***Total***
Kosprys/*Cost*	359 680	170 640	95 000	625 320
Opgehoopte waardevermindering *Accumulated depreciation*		(53 120)	(22 300)	(75 420)
Drawaarde op 2001/12/31 *Carrying value on 2001/12/31*	359 680	117 520	72 700	549 900
Beweging/*Movement*				
Verkrygings teen kosprys/*Additions at cost*				
Verkope teen drawaarde *Disposals at carrying value*				
Waardevermindering vir die jaar *Depreciation for the year*		(23 504)	(9 500)	(33 004)
Drawaarde op 2002/12/31 * *Carrying value on 2002/12/31**	**359 680**	**94 016**	**63 200**	**516 896**
Kosprys/*Cost*	359 680	170 640	95 000	625 320
Opgehoopte waardevermindering *Accumulated Depreciation*		(76 624)	(31 800)	(108 424)
*	**359 680**	**94 016**	**63 200**	**516 896**
4. Voorraad / *Inventories*				
Handelsvoorraad/*Trading stock*				67 936
Verbruiksgoedere voorhande *Consumables stores on hand*				72 136
				72 136
5. Handels- en ander debiteure ***Trade and other receivables (debtors)***				
Handelsdebiteure/*Trade debtors*				24 200
Voorsiening vir oninbare skulde				(1 210)

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Provision for bad debts				
Netto handelsdebiteure/*Net trade debtors*				22 990
Vooruitbetaalde uitgawes/*Prepaid expenses*				6 500
Opgelope inkomste/*Accrued income*				5 000
				34 490
6. Kontant en kontantekwivalente ***Cash and cash equivalents***				
Bank/*Bank*				45 396
Wisselgeld/*Cash float*				1 200
Kleinkas/*Petty cash*				500
				47 096
7. Gewone aandelekapitaal ***Ordinary share capital***				
Gemagtig/*Authorised*				
200 000 gewone aandele van R2 elk *200 000 ordinary shares of R2 each*				400 000
Uitgereik/*Issued*				
150 000 aandele uitgereik teen R2 elk *150 000 shares issued at R2 each*				300 000
8. Aandelepremie / *Share premium*				
Saldo op 28 Februarie 2000 *Balance on 28 February 2000*				80 000
Aandele gedurende die jaar uitgereik *Shares issued during financial year*				-
Saldo op 28 Februarie 2001 *Balance on 28 February 2001*				80 000
9. Opgehoopte wins / Behoue inkomste ***Accumulated profits / Retained income***				
Saldo op 28 Februarie 2000 *Balance on 28 February 2000*				40 000
Netto wins na belasting vir die jaar *Net profit after tax for the year*				105 000
Gewone dividende/*Ordinary dividends*				(55 000)
Betaal/*Paid*			(25 000)	
Aanbeveel/*Recommended*			(30 000)	
Saldo op 28 Februarie 2001 *Balance on 28 February 2001*				90 000
10. Handels-en ander krediteure ***Trade and other payables (creditors)***				
Handelskrediteure/*Trade creditors*				52 013
Opgelope uitgawes/*Accrued expenses*				3 000
Vooruitontvange inkomste *Income received in advance*				1 505
Werkloosheidsversekeringsfonds *Unemployment Insurance Fund*				1 600
Aandeelhouers vir dividende *Shareholders for dividends*				30 000
Suid-Afrikaanse Inkomstediens *South African Revenue Services*				2 500
- Inkomstebelasting/*Income tax*			2 500	
- LBS/*PAYE*			-	
				90 618

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ACTIVITY 7 OEFENING

XYZ BPK. / *XYZ LTD*.
KONTANTVLOEISTATE VIR DIE JAAR GEËINDIG 28 FEBRUARIE 2004
CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2004

Kontantvloei uit bedryfsaktiwiteite ***Cash flow from operating activities***			**42 000**
Kontant uit bedrywighede voortgebring *Cash generated from operations*	1	102 000	
Rente betaal / *Interest paid*		(16 000)	
Dividende betaal */ Dividends paid*	3	(17 000)	
Inkomstebelasting betaal / *Income tax paid*	4	(27 000)	
Kontantvloei uit beleggingsaktiwiteite ***Cash flow from investing activities***			**(85 000)**
Aankoop van vaste bates / nie-bedryfsbates *Purchase of fixed assets / Non-current assets*	5	(95 000)	
Opbrengs met die verkoop van vaste bates / nie-bedryfsbates *Proceeds from sale of fixed assets / non- current assets*		10 000	
Kontantvloei uit finansieringsaktiwiteite ***Cash flow from financing activities***			**31 000**
*(1)Opbrengs verkry uit aandele uitgereik **(1)Proceeds from shares issued*		72 000	
Opbrengs van langtermynlenings *Proceeds from long term loans*		-	
Terugbetaling van langtermynlenings' *Payment of long term loans*		(41 000)	
Netto verandering in kontant en kontantekwivalente *Net change in cash and cash equivalents*	2		***(13 000)**
Kontant en kontantekwivalente aan die begin van die jaar *Cash and cash equivalents at beginning of year*	2		34 000
Kontant en kontantekwivalente aan die einde van die jaar *Cash and cash equivalents at end of year*	2		21 000

N.B. Net change in Cash and cash equivalents is the balancing and reconciliation amount.

XYZ BEPERK / *XYZ LIMITED*
NOTAS TOT DIE KONTANTVLOEISTAAT / *NOTES TO THE CASH FLOW STATEMENT*

1 Rekonsiliasie van netto wins voor belasting en kontant verkry uit bedrywighede. ***Reconciliation between profit before taxation and cash generated from operations***		
Wins voor belasting/*Profit before taxation*	64 000	
Aangesuiwer vir: */ Adjustments for*:		
-Waardevermindering/*Depreciation*	25 000	
- Rente betaal/*Interest paid*	16 000	
Wins uit bedrywighede voor veranderinge in bedryfskapitaal/*Operating profit before changes in working capital*		105 000
		(4 000)
(Toename) / Afname in voorraad (*Increase) / Decrease in inventory* (120 000 – 104 000)	(16 000)	
(Toename) / Afname in debiteure (*Increase) /Decrease in debtors* (52 000 – 42 000)	10 000	
Toename / (Afname) in krediteure *Increase / (Decrease) in creditors* (50 000 – 48 000)	2 000	
Kontant deur bedrywighede voortgebring *Cash generated from operations*		101 000
2 Kontant en kontantekwivalente/ **Netto**		

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Cash and cash equivalents	**verandering** ***Net change***	**2004**	**2003**
Bank (Oortrokke bank) *Bank (overdraft)*	(13 000)	21 000	34 000
Wisselgeld / *Cash float*	--	--	--
Kleinkas / Petty cash	--	--	--
	(13 000)	21 000	34 000

Die volgende notas word nie vereis nie, maar berekeninge moet getoon word./
The following notes are not required, but calculations should be shown.

Grootboekrekeninge is aanvaarbaar/
Ledger accounts are acceptable

3. Dividends betaal / *Dividends paid*	
Bedrag in finansiële state *Amount in financial statements*	(20 000)
Saldo op laaste dag van die vorige jaar *Balance on last day of previous year*	(9 000)
Saldo op laaste dag van die huidige jaar *Balance on last day of current year*	12 000
	(17 000)
4. Inkomstebelasting betaal / *Taxation paid*	
Bedrag in inkomstestaat *Amount in income statement*	(25 000)
Saldo op laaste dag van vorige jaar *Balance on last day of previous year*	(6 000)
Saldo op laaste dag van huidige jaar *Balance on last day of current year*	4 000
	(27 000)
5 Tasbare bates aangekoop / Vaste bates aangekoop /Eiendom, aanleg en toerusting aangekoop ***Tangible assets purchased / Fixed assets purchased/Property, plant and equipment purchased***	
Grond en geboue / *Land and buildings*	(50 000)
Toerusting / *Equipment*	(45 000)
Voertuie / *Vehicles*	--
	(95 000)

Verduidelikings

*1. 332 000 – 260 000 = 72 000

2. Berekening van toerusting aangekoop:

Begin	110 000	(Drawaarde)
Waardevermindering	(25 000)	(per Inkomstestaat)
Verkoop	(10 000)	(Drawaarde)
Sub-totaal	75 000	
Einde	(120 000)	(Drawaarde)
Aangekoop	**(45 000)**	**Dit is die vermiste bedrag.**

3. Die bedrag aangedui met (*) in die kontantvloeistaat (R13 000) moet balanseer met die balans tussen kontant in die balansstate van 2004 en 2003. Die belangrikste oogmerk van die staat is om the verduidelik waarom die kontant-bedrag verhoog of verlaag het. In hierdie geval is die R13 000 'n uitvloei/verlaging.

4. Waardevermindering het geen invloed op die vloei van kontant nie. Dit word dus bygetel om te bepaal wat die wins was voor waardevermindering.

5. Rente op lenings word apart in die kontantvloeistaat getoon, dus word dit eers bygetel. (Nota 1).

6. Dieselfede geld vir rente ontvang – dit word eers afgetrek. Rente ontvang word apart op die kontantvloeistaat getoon.

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56 **Explanations**

*1. 332 000 – 260 000 = 72 000

2. Calculation of equipment purchased:

Beginning	110 000	(Carrying value)
Depreciation	(25 000)	(per Income Statement)
Sold	(10 000)	(Carrying value)
Sub-total	75 000	
End	(120 000)	(Carrying value)
Purchased	**(45 000)**	**This is the missing figure.**

3. The bottom line of the Cash Flow Statement, i.e. R13 000 (*), must be checked by subtracting the figures for cash in the Balance Sheets for 2004 and 2003. The main objective of the statement is to explain why the figure for cash increased or decreased. In this exercise the R13 000 is an outflow/decrease.

4. Depreciation does not involve a flow of cash. It is therefore added back to determine what the net profit was before the depreciation. (Note 1).

5. Interest on borrowed money has to be shown separately on the Cash Flow Statement; this is why it is added back. (Note 1).

6. Similarly interest income must be subtracted from this note and shown on the body of the Cash Flow Statement as inflow of funds.

ACTIVITY 8 OEFENING

CHEETAH HANDELAARS / CHEETAH TRADERS
ALGEMENE GROOTBOEK / GENERAL LEDGER

Balansstaatrekeninge-afdeling / *Balance sheet accounts section*

LEDEBYDRAES / *MEMBERS' CONTRIBUTIONS*

2002 Feb. 28	Saldo *Balance*	o/b c/d	387 000	2001 Mr. 1	Saldo *Balance*	a/b b/d	320 000
				Aug. 31	Voertuie/*Vehicles*		55 000
				Nov. 18	Salaris: F. Fralize *Salary: F. Fralize*		12 000
			387 000				**387 000**
				2002 Mr. 1	Saldo *Balance*	a/b b/d	387 000

SAID (INKOMSTEBELASTING / *SARS (INCOME TAX*)

2001 Mr. 10	Bank		2 500	2001 Mr. 1	Saldo *Balance*	a/b b/d	2 500
Aug. 31	Bank		22 000	2002 Feb. 28	Inkomstebelasting *Income tax*		44 800
2002 Feb. 26	Bank		23 000		Saldo *Balance*	o/b c/d	200
			45 000				**45 000**
2002 Mr. 1	Saldo *Balance*	a/b b/d	200				

Nominale rekeninge-afedeling / *Nominal accounts section*

VERDELING AAN LEDE / *DISTRIBUTION TO MEMBERS*

2002 Feb. 28	Verdeling betaalbaar aan lede / *Distribution payable to members*		55 000	2002 Feb. 28	Verdelingsrekening *Appropriation account*		55 000

VERDELINGSREKENING / *APPROPRIATION ACCOUNT*

2002 Feb.	Inkomstebelasting *Income tax*		44 800	2002 Feb.	Wins-en-verlies *Profit and loss*		110 000

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28				28			
	Verdeling aan lede *Distribution to members*		55 000		Opgehoopte wins *Accumulated profits*		21 600
	Opgehoopte wins *Accumulated profits*		31 800				
			131 600				**131 600**

ACTIVITY 9 OEFENING

GOVETTE HANDELAARS BK / GOVETTE TRADERS CC
INKOMSTESTAAT VIR DIE JAAR GEËINDIG 28 FEBRUARIE 2002
INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2002

Verkope/*Sales* (532 400 – 7 380)			525 020
Koste van verkope/*Cost of sales*			(266 720)
Bruto Wins/*Gross Profit*			258 300
Ander Bedryfsinkomste/*Other Operating Income*			58 895
Huurinkomste: M. Goetham / *Rent income: M. Goetham* (4 500 x 6) + (5 040 x 6) of/*or* 62 280 – (4 500 + 540)		57 240	
Oninbare skulde verhaal/*Bad debts recovered*		1 600	
Voorsiening vir oninbare skulde-aansuiwering / *Provision for bad debts adjustment* (1 100 – 1 045)		55	
Bruto Bedryfsinkomste/*Gross Operating Income*			317 195
Bedryfsuitgawes/*Operating Expenses*			(252 370)
Oninbare skulde/*Bad debts*		3 550	
Advertensies/*Advertising*		7 410	
Donasies / *Donations*		1 600	
Verpakkingsmateriaal/*Packing material* (11 800 – 300 – 1 500)		10 000	
Handelsvoorraadtekort/*Trading inventory deficit* (38 650 + 300 – 1 600 – 36 370)		980	
Herstelwerk/*Repairs* (6 600 + 2 000)		8 600	
Wardevermindering/*Depreciation* (48 000 – 2 000 – 22 800) x 15% x 1		3 480	
Lone/*Wages*		84 200	
Salaris: S. Nomvette / *Salary: S. Nomvette*		30 250	
Salaris: M. Goetham / *Salary: M. Goetham*		36 000	
Diverse uitgawes/*Sundry expenses*		66 300	
Bedryfswins / *Operating Profit*			64 825
Rente-inkomste / *Interest income*	1		7 400
Wins voor rente-uitgawe/*Profit before interest expense*			72 225
Rente-uitgawe / *Interest expense*	2		(8 290)
Wins voor belasting / *Profit before tax*			63 935
Belasting/*Taxation*			(17 500)
Netto wins vir die jaar/*Net Profit for the year*			**46 435**

NOTAS TOT FINANSIËLE STATE / *NOTES TO FINANCIAL STATEMENTS*

1. Rente-inkomste/*Interest income*		
Rente op lening: S. Nomvette *Interest on loan: S. Nomvette*		2 500
Rente ontvang van debiteure *Interest received from debtors*		4 900
		7 400

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2. Rente-uitgawe/*Interest expense*		
Rente op lening: M. Goetham *Interest on loan: M. Goetham*		4 550
Rente op oortrekking/ *Interest on overdraft*		3 740
		8 290
3. Opgehoopte fonds/*Accumulated funds*		
Saldo op 2001/02/28 *Balance on 2001/02/28*		38 200
Netto wins vir die jaar *Net profit for the year*		46 435
Verdeling aan lede *Distribution to members*		(25 000)
Saldo op 2002/02/28 *Balance on 2002/02/28*		59 635

Berekeninge / Calculations

(1) Oninbare skulde / *Bad debts*

[2 500 + (700 x $\frac{60}{40}$)] = [2 500 + 1 050]

(2) Advertensies / *Advertising*

[9 810 – (3 600 x $\frac{4}{6}$] = [9 810 – 2 400]

(3) Donasies/ *Donations*

(2 800 x $\frac{100}{175}$)

(4) Rente op lening:M Goedham/ *Interest on loan: M Goedham*

[(30 000 x 13% x $\frac{3}{12}$) = 975] en/*and*

3 575 + 975 = 4 550

ACTIVITY 10 OEFENING

SOMERDRAG BK/*SUMMER WEAR CC*
BALANSSTAAT OP 31 OKTOBER 2002/*BALANCE SHEET AT 31 OCTOBER 2002*

	Notas/*Notes*	**R**	**R**
BATES/*ASSETS*			
NIE-BEDRYSBATES/*NON-CURRENT ASSETS*			938 800
Vaste bates / Tasbare bates / Eiendom / Aanleg / Toerusting *Fixed assets / Tangible assets / Property / Plant / Equipment*	3	912 800	
Finansiële bates / *Financial assets*			
Vaste deposito / *Fixed deposit*		16 000	
Lenings aan lede / *Loans to members*		10 000	
BEDRYFSBATES / *CURRENT ASSETS*			88 200
Voorraad/*Inventories*	4	56 700	
Handels-en ander debiteure/*Trade and other debtors*	5	13 400	
Kontant en kontantekwivalente/*Cash and cash equivalents*	6	18 100	
TOTALE BATES / *TOTAL ASSETS*			**1 027000**
EKWITEIT EN LASTE / AANSPREEKLIKHEDE ***EQUITY AND LIABILITIES***			

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LEDEFONDSE / *MEMBERS' FUNDS*			500 000
Ledebydraes/*Members' contributions*		470 000	
Opgehoopte wins/*Accumulated profits*		30 000	
NIE-BEDRYSLASTE / *NON-CURRENT LIABILITIES*			485 000
Verbandlening / *Mortgage bond*		85 000	
Lening van lede / *Loan from members*		400 000	
BEDRYFSLASTE / *CURRENT LIABILITIES*			42 000
Handels –en ander krediteure/*Trade and other creditors*	10	42 000	
		-	
TOTALE EKWITEIT EN LASTE / AANSPREEKLIKHEDE ***TOTAL EQUITY AND LIABILITIES***			**1 027000**

Berekeninge / *Calculations*

* Handels-en ander debiteure/*Trade and other debtors*:
8874 + 1 820 + 1 700 + 1 450 – 444* = 13 400

* Voorsiening vir oninbare skulde/**Provision for bad debts*:
8 874 x 5% = 443,70

* Kontant en kontantekwivalente/*Cash and cash equivalents*:
6 250 + 900 + 500 + 2 450 + 8 000 = 18 100

* Opgehoopte wins/*Accumulated profits*:
22 000 + 51 000 - *20 400 – 22 600 = 30 000
*21 850 – 1450 = 20 400

* Handels-en ander krediteure/*Trade and other creditors*:
12 050 + 22 600 + 4 600 + 2 750 = 42 000

VRAAG 2

2.1 Likiditeitsposisie

* Bedryfskapitaalverhouding beter as die minimum aanvaarbare verhouding van 2 : 1.
Hiervolgens geoordeel is likiditeit goed.

* Vuurproefverhouding is swakker as die minimum aanvaarbare verhouding van 1 : 1
Hiervolgens geoordeel is likiditeit onbevredigend.
Probeer om die vuurproefverhouding tot by 1 : 1 te kry deur verkope, verkieslik kontantverkope, te verhoog.

2.2 Skuld/ekwiteitsverhouding

= langtermynlaste	:	ledefondse + lenings van lede
= 85 000	:	(500 000) + 400 000)
= 85 000	:	900 000
= 0,09	:	1

2.3 Rede vir lening in plaas van ledebydrae
'n Lening is terugbetaalbaar, dus is dit makliker om die geld weer terug te kry.
Elke keer wat lede hul bydrae aan die BK verander, moet 'n nuwe stigtingsverklaring voltooi word.

2.4 Beperkte aanspreeklikheid
Indien die BK gelikwideer word, is die lede se aanspreeklikheid tot hul belegging in die BK beperk.

2.5 Beperkte aanspreeklikheid verbeur
(Een van die volgende omstandighede)
* As hulle 'n transaksie aangaan waarin die naam van die BK sonder die afkorting BK gebruik word.
* As hulle versuim om die bydraes, soos bepaal in die Stigtingsverklaring, te maak.
* As die aantal lede vir 'n tydperk van ses maande meer as tien is.
* As 'n onbevoegde persoon deelneem aan die bestuur van die BK.
* As betalings aan lede gedoen word terwyl die BK nie aan die solvensie-en likiditeitsvereistes van die Wet op Beslote Korporasies voldoen nie.

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QUESTION 2

2.1 Liquidity position

Current ratio better than minimum accepted ratio of 2 : 1.
Judging by this the liquidity is good.

Acid test ratio is weaker than the minimum accepted ratio of 1 : 1.
Judging by this the liquidity is unsatisfactory.
Aim to get the acid test ratio to 1 : 1 by increasing sales, preferably cash sales.

2.2 Debt-equity ratio

= long-term liabilities : members' funds + loans from members
= 85 000 : (500 000) + 400 000)
= 85 000 : 900 000
= 0,09 : 1

2.3 Reason for loan rather than members' contribution

A loan is repayable so it is easier to get one's money back.
Each time the members change their contribution to the CC, a new Founding statement has to be completed.

2.4 Limited liability

If the CC is liquidated, the members' liability is limited to their investment in the CC.

2.5 Lose limited liability

(One of the following circumstances)

* *By entering into a transaction, using the name of the CC, but without adding the abbreviation CC.*
* *By failing to make the contributions as stated in the Founding statement.*
* *By having more than ten members for a period of six months.*
* *By participating in the management of the CC although disqualified from doing so.*
* *By making payments to members when the CC cannot meet the solvency and liquidity requirements of the Close Corporations Act.*

ACTIVITY 11 OEFENING

Berekening van verkope en koste van verkope/*Calculation of sales and cost of sales*.

	November 2002 *November 2002*	Februarie 2002 *February 2002*	Maandeliks *Monthly*
Verkope *Sales*	90 000	135 000	135 000 ÷10= 13 500
Koste van verkope *Cost of sales*	60 000	90 000	90 000÷10= 9 000

KONTANTBEGROTING VAN PEMBROKE PIE/*CASH BUDGET OF PEMBROKE PIE*
Begrotingsperiode – 1 Februarie 2003 tot 31 Maart 2003
Budgeted period – 1 February 2003 to 31 March 2003

	Februarie ***February***	**Maart** ***March***
Kontantontvangste/*Cash receipts*		
Kontantverkope/*Cash sales*	8 100	8 100
Kontant van debiteure/*Cash from debtors*	1 458	5 238
Totale ontvangste/*Total receipts*	9 558	13 338
Kontantbetalings/*Cash payments*		
Betalings aan krediteure *Payments to creditors*	11 000	9 000
Huuruitgawe/*Rent expense*	200	200
Kommissie-uitgawe/*Commission expense*	1 350	1 350
Totale betalings/*Total payments*	12 550	10 550
Kontantoorskot (tekort) *Cash surplus (shortfall)*	(2 992)	2 788
Bank beginsaldo *Bank opening balance*	2 000	(992)
Bank eindsaldo *Bank closing balance*	(992)	1 796

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DEBITEURE-INVORDERINGSKEDULE/*DEBTORS COLLECTION SCHEDULE*

Begrotingsperiode – 1 Februarie 2003 tot 31 Maart 2003
Budgeted period – 1 February 2003 to 31 March 2003

Maand *Month*	**Kredietverkope** *Credit sales*	**Februarie** *February*	**Maart** *March*
Februarie/*February*	5 400	1 458 (1)	3 780 (2)
Maart/*March*	5 400		1 458 (1)
Totaal/*Total*	10 800	1 458	5 238

(1) 30% x R5 400 = R1 620 – 105 = R1 458
(2) R5 400 – R1 620 = R3 780

ACTIVITY 12 OEFENING

MAKAYA HANDELAARS / *MAKAYA TRADERS*
KONTANTBEGROTING VIR DIE TWEE MAANDE NOVEMBER EN DESEMBER 2002
CASH BUDGET FOR THE TWO MONTHS NOVEMBER AND DECEMBER 2002

	November *November*	**Desember** *December*
KONTANTONTVANGSTE/*CASH RECEIPTS*		
TOTALE ONTVANGSTE/*TOTAL RECEIPTS*	168 000	120 000
KONTANTBETALINGS/*CASH PAYMENTS*		
Kontantaankope/*Cash purchases* (94 000 x 75% x 40% = 28 200)	27 000	28 200
Betalings aan krediteure/*Payments to creditors* (90 000 x 75% x 60% = 40 500)	38 250	40 500
Bedryfsuitgawes/*Operating expenses*	14 000	14 000
Advertensies/*Advertising* (90 000 x 3% = 2 700) en/*and* (94 000 x 4% = 3 760)	2 700	3 760
Salarisse/*Salaries*	18 000	15 000
Toerusting/*Equipment*	-	2 900
TOTALE BETALINGS/*TOTAL PAYMENTS*	99 950	104 360
Kontantoorskot (tekort)/*Cash surplus (shortfall)*	68 050	15 640
Bank (beginsaldo)/*Bank (opening balance)*	(40 000)	28 050
Bank (eindsaldo)/*Bank (closing balance)*	28 050	43 690

Vrae ***Questions***

Twee bedryfsuitgawes wat nie in die Kontantbegroting hoort nie. ***Two operating expenses that do not belong in the Cash budget.***

Waardevermindering — *Depreciation*
Korting toegestaan — *Discount allowed*
Oninbare skulde — *Bad debts*
(Enige twee) — *(Any two)*

Hoe verkoop die besigheid sy handelsware? ***How does the business sell its merchandise?***

Op krediet/Op rekening — *On credit/On account*

Kontant van debiteure ontvang November 2002 ***Cash received from debtors November 2002***

Maand *Month*	**Kredietverkope** *Credit sales*	**Berekening** *Calculation*	**November** *November*
September/*September*	R70 000	(70 000 x 20%)	14 000
Oktober/*October*	R85 000	(85 000 x 35%)	29 750
November/*November*	R90 000	(90 000 x 40% x 87½%)	31 500
			75 250

Oninbare skuld afgeskryf – begrotingstydperk
Bad debts written off – budgeted period

	Kredietverkope *Credit sales*	**Berekening** *Calculation*	**Bedrag** *Amount*	**Maand** *Month*
Augustus *August*	R60 000	(60 000 x 5%)	3 000	November *November*
September *September*	R70 000	(70 000 x 5%)	3 500	Desember *December*
			6 500	

Korting toegestaan – Desember 2002 ***Discount allowed – December 2002***
94 000 x 40% x 12½% = R4 700

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ACTIVITY 13 OEFENING

SMALL TOYS BPK./*SMALL TOYS LTD.*
MAANDELIKSE INKOMSTE-VOORSPELLING: DESEMBER 2001 TOT FEBRUARIE 2002
MONTHLY INCOME FORECAST: DECEMBER 2001 TO FEBRUARY 2002

	Desember ***December***	**Januarie** ***January***	**Februarie** ***February***
Verkope/*Sales*	100 000	80 000	65 000
Koste van verkope/*Cost of sales*	(80 000)	(64 000)	(52 000)
Bruto wins/*Gross profit*	20 000	16 000	13 000
Ander bedryfsinkomste ***Other operating income***			
Huurinkomste/*Rent income*	2 000	2 500	2 500
Bruto bedryfsinkomste ***Gross operating income***	22 000	18 500	15 500
Bedryfsuitgawes/*Operating expenses*	(6 300)	(9 325)	(9 625)
Waardevermindering/*Depreciation*	200	2 825	2 825
Ander kontantuitgawes *Other cash expenses*	6 100	6 500	6 800
Bedryfswins (verlies) ***Operating profit (loss)***	15 700	9 175	5 875
Rente-inkomste/*Interest income*	-	-	-
Wins voor rente-uitgawe ***Profit before interest expense***	15 700	9 175	5 875
Rente-uitgawe (Rente op lening) *Interest expense (Interest on loan)*	-	-	(1 120)
Netto wins (verlies)/*Net profit (loss)*	15 700	9 175	4 755

2.1 Koop die voertuig op krediet.
(Moenie die voertuig koop nie)

3.2.1 *Buy the vehicle on credit.*
(Do not buy the vehicle)

2.2 Voorlopige inkomstebelasting.

3.2.2 *Provisional income tax.*

2.3 25% $\left(\frac{20000}{80000}\times\frac{100}{1}=25\%\right)$ of/*or* $\left(\frac{16000}{64000}\times\frac{100}{1}=25\%\right)$ of/*or* $\left(\frac{13000}{52000}\times\frac{100}{1}=25\%\right)$

2.4 Getal maande se voorraad voorhande/*Number of months' inventory on hand*

2.5

$$= \frac{\text{gemiddelde voorraad / } \textit{average inventory}}{\text{koste van verkope / } \textit{cost of sales}}\times\frac{12}{1}$$

$$= \frac{\frac{1}{2}(320000+320000)}{768000}\times\frac{12}{1}$$

$$= \frac{320000}{768000}\times\frac{12}{1}$$

= 5 maande/5 *months*

2.5 Dit behoort nie nodig te wees om genoeg handelsvoorraad (wat uit speelgoed bestaan) vir 5 maande in voorraad te hou nie. Dit is nie 'n item wat normaalweg moeilik bekombaar is nie. Dit is goed om elke maand die verkoopte voorraad aan te vul, maar hulle sou 'n vermindering in die basiese voorraad-waarde kan oorweeg.

3.2.5 *It should not be necessary to have enough trading inventory (consisting of toys) on hand for 5 months. It is not an item that (under normal circumstances) is difficult to come by. It is good to replace goods that are sold on a monthly basis, but they should consider a decrease in the fixed base inventory level.*

2.6 Voorraad kan verouder.
Voorraad kan uit die mode raak.
Te veel bedryfskapitaal in voorraad opgesluit.

3.2.6 *Inventory can become obsolete.*
Inventory can go out of fashion.
Too much working capital in inventory.

2.7 Des./*Dec.* 2001 Feb./*Feb.* 2002

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%netto wins op omset/*% net profit on turnover* = $\frac{15700}{100000} \times \frac{100}{1}$ $\frac{4755}{65000} \times \frac{100}{1}$

= 15,7% 7,32%

2.8 Omset (dus ook bruto wins) het afgeneem.
Waardevermindering het toegeneem.
Ander kontantuitgawes het toegeneem.

2.8 *Turnover (therefore also gross profit) decreased.*
Depreciation increased.
Other cash expenses increased.

2.9 Aandeelhouersbelang/*Shareholders' equity* = 84 000 ÷ 0,16 = R525 000.

2.10 Rentekoers op lening/*Interest rate on loan* = $\frac{1120}{84000} \times \frac{12}{1} \times \frac{100}{1}$

= 16% per jaar/*per annum*

2.11

a) $\frac{\text{Netto wins voor rente en belasting / } \textit{Net profit before interest and tax}}{\text{Gemiddelde kapitaal aangewend / } \textit{Average capital employed}} \times \frac{100}{1}$

$= \frac{(105000 + 1120)}{\frac{1}{2}(525000 + 609000)} \times \frac{100}{1}$

$= \frac{106120}{567000} \times \frac{100}{1}$

= 18,72%

b) Rente op lening beloop 16% per jaar. Netto verdienste op kapitaal aangewend is 18,72%.
∴ Was wys om lening aan te gaan.

b) *Interest on loan amounts to 16% per annum.Net earning on capital employed is 18,72%.*
∴ *It was wise to take out loan.*

c) Uitreik van bykomende aandele.

c) *Issue of additional shares.*

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SALARISJOERNAAL VAN PROTEA TRADERS VIR DIE MAAND GEËINDIG 30 SEPTEMBER 2000
SALARY JOURNAL OF PROTEA TRADERS FOR THE MONTH ENDED 30 SEPTEMBER 2000

Werknemer *Employee*	Bruto salaris *Gross salary*	Aftrekkings *Deductions*				Totaal *Total*	Netto salaris *Net salary*	Werkgewersbydraes *Employer's contributions*		
		Pensioen-fonds *Pension fund*	Sieke-fonds *Medical aid*	WVF *UIF*	LBS *PAYE*			Pensioen-fonds *Pension fund*	WVF *UIF*	Totaal *Total*
H. Cronjé	6 000	480	110	60	1 820	2 470	3 530	480	60	540
A. Adams	5 000	400	70	50	1 250	1 770	3 230	400	50	450
(60 000/12)										
	11 000	**880**	**180**	**110**	**3 070**	**4 240**	**6 760**	**880**	**110**	**990**

Verduideliking / *Explanation*

1. LBS/*PAYE*
   H. Cronjé: R6 000 x 12 = R72 000
   (72 000 – 70 000) = R2 000
   R2 000 x 42% = R840
   R21 000 + R840 = R21 840 p.j./*p.a*.
   R21 840 ÷ 12 = R1 820 p.m.

   A. Adams: LBS/*PAYE* = R60 000 = R15 000 p.j./*p.a*.
   R15 000 ÷ 12 = R1 250 p.m.

2. Pensioenfonds/*Pension fund*
   H. Cronjé = R6 000 x 8% = R480
   A. Adams = R60 000 ÷ 12 = R5 000 p.m. x 8% = R400

3. WVF/*UIF*
   H. Cronjé = R6 000 x 1% = R60
   A. Adams = R5 000 x 1% = R50

4. Siekefonds/*Medical Aid*
   H. Cronjé = R1 080 + R120 + R120 = R1 320 p.j./*p.a.* ÷ 12 = R110 p.m.
   A. Adams = R840 p.j./*p.a.* ÷ 12 = R70 p.m.

end

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