

- Types of statements**
- Financial Position FP** (shows financial standing at Specific date)
 - Profit or loss and other comprh. income PL & OCI** (difference between income and expenditure for a specific period)
 - Change in equity CiE** (how equity change during financial period)
 - Cash flows CF** (how cash was generated and used during the year)
 - Notes** (include accounting policies, information and additional explanatory information)

Financial Instrument: Any contract that gives rise to a **financial asset** for one entity and a **financial liability or equity** for another entity.

Financial asset held for:

- Trading at fair value though profit or loss**
e.g. shares held for speculative purposes (listed investment)
- At fair value through other comprehensive income**
e.g. investment in equity instrument (unlisted investment)

Establishment and financial statements of partnership

- * Should comply with requirements of IFRS
- * Partnership = accounting entity, not legal entity
- * Does not pay tax, partners pay tax individually in personal capacity

- Statement of changes in equity:**
- Salaries
 - Bonuses & commissions to partners
 - Interest on capital and current accounts
 - Drawings

- Under OTHER INCOME (PL & OCI)**
- Interest on loan to partner

- Under FINANCE COST (PL & OCI)**
- Interest on loan from partner

NOTE: if no agreement on how profit / losses will be shared then this should be calculated via capital contribution ratio.

ABC TRADERS (name of entity)
STATEMENT OF PROFIT OR LOSS AND OTHER COMPRH INCOME FOR THE YEAR ENDED 28 Feb 2013
(description and date)

	R
Revenue (Sales – settl disc granted)	x
Cost of Sales	(x)
Gross Profit	x
Other income	x
profit on sales	x
Distribution, admin and other expenses	(x)
credit losses	x
bank charges	x
salaries and wages	x
depreciation	(x)
Finance cost	x
interest on long term loan	x
Profit for the year	x
Other comprehensive income for the year	x
Total Comprehensive income for the year	x
Salaries & Wages	R214 900
Drawings	R10 500
<u>Other info:</u> Each partner is entitled to R5 000 salary per month. Only R80 000 has been paid to both partner as salaries, this is incl. in the salaries and wages figure above.	
* Calculate the amount to be disclosed as distribution, admin and other expenses in PL & OCI	
Land & buildings	R800 000
Vehicles at cost	R168 000
Equipment at cost	R 48 000
Accum. Depreciation: Vehicles (01 Jan 13)	R 27 900
Accum. Depreciation: Equipment (01 Jan 13)	R 15 500
Depreciation – 31 Oct 13	R 1 500
<u>Other info:</u> * On 30 June 13 new vehicle was purchased = R68 000 * On 31 Oct 13 equipm of cost price R15 000 was sold for R1 000. at this date the accum. Depreciation was R9 000 * Depreciation for the year was not yet provided for Vehicles = straight line method (20% per annum) Equipment = diminishing balance method (25% per annum)	
* Calculate the amount to be disclosed as depreciation in PL & OCI	

EXAMPLE → Paul & Shark are in partnership trading as Paul&Shark Traders. Following were extracted on 31 Dec 2013

1	Sales	R668 800
	Cost of Sales	R236 100
	Settlement Disc granted	R 23 100
	Allowance for SDG	R 15 000

• **Prepare trading section in PL & OCI**

2	Investment at cost	R100 000
	Rental income	R 22 000

other info:
Investment consists of 12 000 shares in Puma Ltd. Purchased for R70 000. Market value: R77 500 (held for trading purposes)
5 000 shares in Zoo Ltd, purchased for R30 000

* **Calculate the amount to be disclosed as other income in PL & OCI**

4	Debtors control	R20 000
	Allow. For credit loss	R 1 000

Other info:
Debtor was declared insolvent, on this date debtor had recorded balance of R5 000. amount incl. in the R20 000 above (was not written off). On 30 Dec the business received 20% of the amount. This was not recorded in the cash receipt journal. After this Paul&Shark decided to increase credit losses to R1 500

* **Calculate the amount to be disclosed as credit losses in PL & OCI**

6	Long term loan from Paul	R150 000
	Interest on bank overdraft	R15 000

Other info:
Paul granted the loan on 31 Jul 13, interest is 15% per annum

* **Calculate the amount to be disclosed as finance cost in PL & OCI**

Paul&Shark Traders (name of entity)
STATEMENT OF PROFIT OR LOSS AND OTHER COMPRH INCOME FOR THE YEAR ENDED
31 Dec 2013 (description and date)

	R
Revenue (Sales – settl disc granted)	624 700
Cost of Sales (provided)	(236 100)
Gross Profit (Revenue – cost of sales)	409 600
Other income (Investment + rental income)	29 500
Gain on financial asset at fair value through profit or loss	7 500
Held for trading: Listed investment (market value – purchase price)	22 000
Rental income (provided)	(182 700)
Distribution, admin and other expenses (add all expenses)	134 900
salaries and wages (Salaries – what was already received)	4 500
Credit Losses (credit loss + increase amount on credit loss)	5 000
Loss on sale of Equip. (purch price – depreciation – sales cost)	38 300
Depreciation	(24 375)
Finance cost (interest on LT loan + bank overdraft)	9 375
interest on LT loan (total amount x percentage per annum x total months)	15 000
interest on bank overdraft (provided)	232 025
Profit for the year (Gross profit + other income – expenses – fin costs)	x
Other comprehensive income for the year	x
Total Comprehensive income for the year	x

Paul & Shark are in partnership trading as Paul&Shark Traders. Following were extracted on 31 Dec 2013

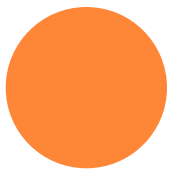
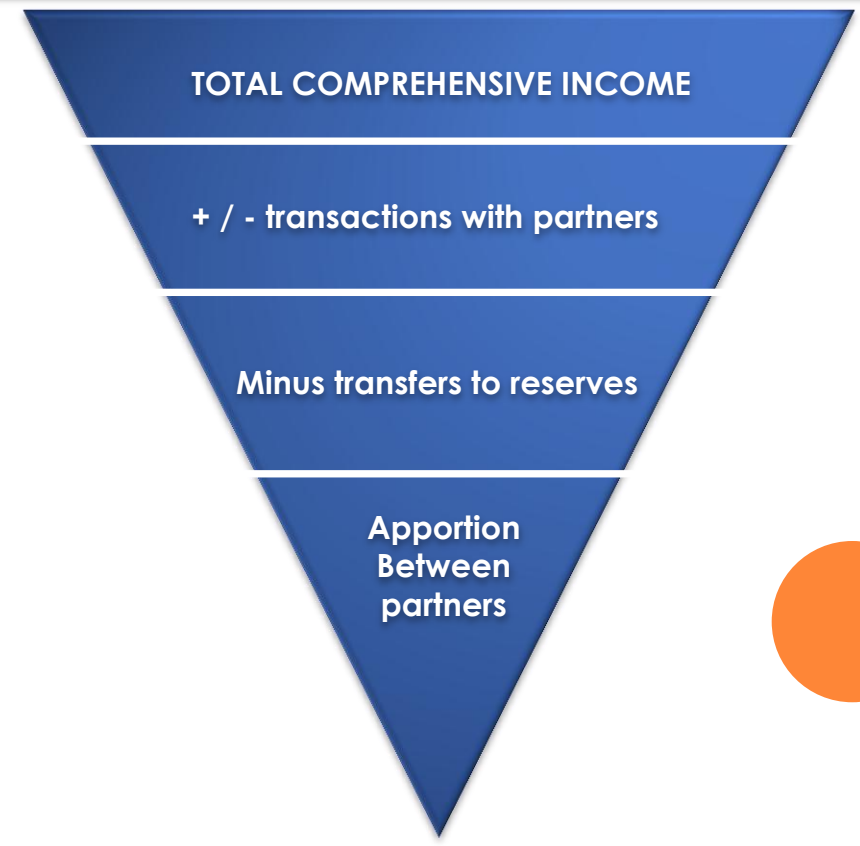
Capital: Paul	R62 500	1
Capital: Shark	R75 000	
Current Account: Paul (dr) 1 Jan 13	R 2 500	
Current Account: Shark (cr) 1 Jan 13	R 6 000	
Total Comprehensive income for year	R231 025	2
Total Comprehensive income for year	R231 025	
Salaries & Wages	R214 900	
<u>Other info:</u>		
Each partner entitled to R5 000 salary per month		
Drawings: Paul	R4 500	3
Drawing: Shark	R6 000	
Salaries & Wages	R214 900	
<u>Other info:</u>		
Each partner entitled to R5 000 salary per month, only R40 000 has been paid to each partner, this is incl. in the above figure (Salaries & Wages)		
Capital: Paul	R62 500	4
Capital: Shark	R75 000	
Current account: Paul (DR)	R2 500	
Current account: Shark (CR)	R6 000	
<u>Other info:</u>		
Partnership agreement:		
Interest on capital rate = 10% per annum		
Interest on opening balances of current accounts = 5% per annum		

ABC TRADERS (name of entity)
STATEMENT OF CHANGE IN EQUITY FOR THE YEAR ENDED 28 Feb 2013 (description and date)

	Capital		Current accounts		Appr.	Total equity
	Partner A	Partner B	Partner A	Partner B		
Balances at (date, this year)	R	R	R	R	R	R
Total comprh. income for the year						
Salaries to partners						
Drawings						
Interest on Capital accounts						
Interest on Current acc.						
Partners' share						
Balance as at (date, next year)						

EXAMPLE

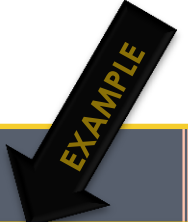
Appropriation account



	Capital		Current accounts		Appr.	Total equity
	Partner A Paul	Partner B Shark	Partner A Paul	Partner B Shark		
Balances at 1 Jan 13 (date, this year) 1	R 62 500	R 75 000	R (2500)	R 6 000	R -	R 141 000
Total comprh. income for the year					232 025	232 025
Salaries to partners 2			60 000	60 000	(120 000)	
Drawings 3			(44 500)	(46 000)		(90 500)
Interest on Capital accounts 4			6 250	7500	(13 750)	
Interest on Current acc.			(125)	300	(175)	
Partners' share			58 860	39 240	(98 100)	
Balance as at 31 Dec 13 (date, next year)	62 500	75 000	77 985	67 040	-	282 525

Statement of Financial Position as at (date)	
ASSETS	
Non-current assets	X
Property, Plant & Equipment	X
Financial assets	X
Current Assets	X
Prepayments	X
other financial assets	X
Total Assets	X
EQUITY & LIABILITIES	
Total Equity	X
Capital	X
Current account	X
Other components of equity	X
Total Liabilities	X
Non-current liabilities	X
long term borrowings	X
Current Liabilities	X
trade and other payables	X
current portion of long-term borrowings	X
Other financial liabilities	X
Total equity and liabilities	X

Paul & Shark are in partnership trading as Paul&Shark Traders. Following were extracted on 31 Dec 2013



Administrative Expenses	R15 000	4
Other info: R6 500 (insurance expense) included in the administrative expense above The premiums are payable in advance, Jan 14 premium is incl. in the figure		

Land & Buildings	R800 000	1
Vehicles at cost	R168 000	
Equipment at cost	R 48 000	
Acc. Depreciation: vehicle (01 Jan 13)	R 27 900	
Acc. Depreciation: equipment (01 Jan 13)	R 15 500	
Depreciation – 31 Oct 13	R 1 500	
<u>Other info:</u>		

* 30 June 13: business purchased a new vehicle at cost R68 000
 * 31 Oct 13: Equipment with cost price R15 000 was sold for R1 000, depreciation on that date was R9 000
 * Depreciation yet to be calculated:
 1. VEHICLES straight line method, 20% per annum
 2. EQUIPMENT diminishing balance method, 25% per annum

Paul&Shark traders		Statement of Financial Position as at 31 Dec 13 (date)	
ASSETS			
Non-current assets			973 300
Property, Plant & Equipment 1			943 300
Financial assets 2			30 000
Current Assets			92 300
Trade and other receivables (debt contr – written off – allowance for CL+ acc income) 3			14 300
Prepayments 4			500
Other fin. Assets (share for trading purposes, current value) 5			77 500
Total Assets (Non Curr Ass + Current Ass)			1 065 600

Investment at cost 2 & 5	R100 000	
<u>Other info:</u>		
• 12 000 shares from Puma Ltd, R70 000 cost price, market value: R77 500 (trade purposes)		
• 5 000 shares from Zoo Ltd, R30 000 cost price		
Debtors control 3	R20 000	
Allowance for credit losses	R 1 000	
Accrued Income	R 800	
<u>Other info:</u>		
R5 000 owed by debtor must be written off		
Allowance for credit losses to be adjusted to R1 500		

Equity & Liability portion on next page

Paul&Shark traders
Statement of Financial Position as at 31 Dec 13 (date)

ASSETS	
Non-current assets	973 300
Property, Plant & Equipment	943 300
Financial assets	30 000
Current Assets	92 300
Trade and other receivables (debt contr – written off – allowance for CL+ acc income)	14 300
Prepayments	500
Other fin. Assets (share for trading purposes, current value)	77 500
Total Assets (Non Curr Ass + Current Ass)	1 065 600

Equity & Liabilities	
Total Equity (capital + current accounts)	282 525
Capital (Paul + Shark)	137 500
Current Accounts (Paul + Shark)	145 025
Total Liabilities (Current + non-current)	783 075
Non Current Liabilities	640 000
Long term borrowings	640 000
Current Liabilities	143 075
Trade & other payables	143 075
Total Equity & Liabilities	1 065 600

Get from statement of CiE

Long term borrowing (info given)

Creditors Control (R149 075) – allowance for settlement discount (R6 000) (info given)

Changes in ownership structure of partnerships

Recording Valuation Adjustments

Valuation account

&

Existing Partners
Capital accounts

Valuation
adjustments

DR: Decrease in value of assets
CR: Increase in value of assets

Appropriate the balancing figure of the
“VALUATION ACCOUNT” to partners
 according to their profit-sharing-ratio

Example on
next page



Recording Valuation Adjustments Examples

A & B were in partnership trading as AB traders, profit sharing is 3:1. they decided to admit C from 01 Jan 2013. following appeared in the accounting records of AB Traders at 31 Dec 2012

	R
Capital A	126 500
Capital B	42 000
Total Assets	168 000

(equip: R111 000, inventory R57 000)

Other info:

AB Traders agreed that equipment be valued at R126 000 and Inventory at R52 000

Question: Prepare the valuation account

DR	Valuation account		CR
	R		R
Inventory 57 000 – 52 000	5 000	Equipment 126 000 - 111 000	15 000
Capital A (3/4 xR10 000)	7 500		
Capital B (1/4 xR10 000)	2 500		
	15 000		15 000

Goodwill

A sound reputation of a business, influenced by factors such as

- Quality of service rendered
- Efficient management
- Valuable patent right and trade marks

Goodwill represents the value attached to factors that enable a business to increase turnover beyond industry norm

EXAMPLE

A & B were in partnership trading as AB traders, profit sharing is 3:1. they decided to admit C from 01 Jan 2013. C will pay R30 000 cash and contribute equipment to the value of R40 000 for his 20% interest in the fair value of the net assets of the new partnership. The following appeared in the accounting records of AB Traders at 31 Dec 2012

	R
Capital A	126 500
Capital B	42 000
Total Assets	168 000

(equip: R111 000, inventory R57 000)

Other info:

AB Traders agreed that equipment be valued at R126 000 and Inventory at R52 000

Question: Calculate goodwill of the partnership on Dec 13

subtract

Equity of A, B and C (new partnership) :
A: 126 000 + 7 500; B: 42 000 + 2 500; C: 30 000 + 40 000
= a + b + c = R248 000

Goodwill : R 102 000

RECORDING of Goodwill

DR	Goodwill		CR
	R		R
Capital A	76 500		
Capital B	25 500		
		102 000	

DR	Capital A		CR
	R		R
		Balance b/d	126 000
		Valuation account	7 500
		Goodwill	76 500
			210 000

DR	Capital B		CR
	R		R
		Balance b/d	42 000
		Valuation account	2 500
		Goodwill	25 500
			70 000

Calculation of Goodwill acquired

The capital contribution of the incoming partner

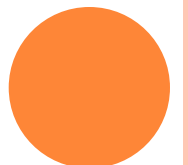


Inverse of the incoming partner's share in net asset value

Total Equity of a NEW partnership

Goodwill

Capital contribution of C x inverse of Cs Shares:
R(30 000 + 40 000) x 5/1 = R350 000



Liquidation of Partnership (2 types)

TYPE 1. Simultaneous liquidation

- Assets of partnership are sold
- Liabilities settled over a short period of time
- Remaining cash is distributed to partners (capital contribution ratios)

EXAMPLE

Mark and Fish are in partnership, sharing profits and losses in 2:1 ratio. They decide to dissolve the partnership simultaneously at the end of the current year. The following was extracted from the accounts:

	R
Capital: Mark	330 000
Capital: Fish	280 000
Land and building at cost	330 000
Furniture at cost	45 000
Accum. Depreciation	10 000
Goodwill	135 000
Asset replacement reserve	105 000
Debtor control	160 000
Bank (dr)	140 000
Long term loan (abc bank)	85 000

Other info:

- * Land & Buildings were sold for R45 000 cash
- * Long term loan were paid in full
- * Furniture were sold for cash, profit of R3000
- * 95% of debtors settled their accounts at discount of 10%, outstanding balance of 5% were regarded as irrecoverable
- * Liquidation cost amounted to R6 000, were paid in cash

Required: Prepare accounts in General Ledger to dissolve partnership

Liquidation Account

All asset (except Bank) and liabilities are transferred to this account

Bank Account

Cash received on sale of assets and cash paid in settlement of liabilities

Partners capital accounts

Assets and liabilities taken over by partners

Share of profit / loss from liquidation account

Note: Asset replacement reserves and goodwill accounts are NOT transferred to the Liquidation account. It is closed off to partners' capital accounts

DR	Liquidation account		CR
	R		R
Land & Building at cost	330 000	Accum. Depreciation: Furniture	10 000
Furniture at cost	45 000	Long term loan	85 000
Debtors control	160 000	Bank (land and building)	450 000
Bank (long term loan)	85 000	Bank (Furniture)	38 000
Bank (liquidation cost)	6 000	Bank (Debtors control)	136 800
Capital account: Mark	62 533		
Capital account: Fish	31 267		
	719 800		719 800

DR	Capital: Mark		CR
	R		R
Goodwill b/d	140 000	Balance b/d	330 000
Bank	372 533	Asset replacement reserve	70 000
		Liquidation account	62 533
	462 533		462 533

DR	Capital: Fish		CR
	R		R
Goodwill b/d	45 000	Balance b/d	280 000
Bank	301 267	Asset replacement reserve	35 000
		Liquidation account	31 267
	346 267		346 267

DR	Bank		CR
	R		R
Balance b/d	140 000	Liquidation account: Long term loan	85 000
Liquidation account: Land and building	450 000	Liquidation account: Liquidation costs	6 000
Liquidation account: Furniture	38 000	Capital account: Mark	372 533
Liquidation account: Debtors control	136 800	Capital account: Fish	301 267
	764 800		764 800

Goodwill allocation:

Mark: $135\ 000 \times \frac{2}{3} = R90\ 000$
Fish: $135\ 000 \times \frac{1}{3} = R45\ 000$

Asset replacement reserve allocation:

Mark: $105\ 000 \times \frac{2}{3} = R70\ 000$
Fish: $105\ 000 \times \frac{1}{3} = R35\ 000$

Furniture Sale

Balance (cost) –
accum. Depreciation =
45K – 10K = 35K
Add profit on sale +
3K
= proceeds on sale of
furniture **R38 000**

Calculations

Cash from debtors

Debtors balance = R16k
Debtors that settled
account = $160k \times 95\%$
= R125 000
Amount receivable after
10% discount = $152k \times 90\%$
= R136 800

K = short for thousand rand

TYPE 2. Piecemeal liquidation

- Assets are sold in piecemeal fashion
- Available cash is used to settle liabilities
- Once liabilities are paid, cash is paid to partners (capital contribution ratios)

GOLDEN RULES:

- **Open the applicable accounts** in column form with balances
- **Close off "Reserves and Goodwill"** accounts to partners capital accounts
- **Apportion profits or losses** from each realisation of assets and capital accounts
- When cash becomes available, **ALL LIABILITIES must be paid** until they are fully settled.
- Once liabilities are fully settled, a calculation is done to determine how **INTERIM REPAYMENTS must be made to partners**
- If cash is available (after liability payments):
 - **Commence with balances** at the date when cash is available for distribution
 - Assume **unsold assets are worthless** and apportion the potential deficit to partners' capital accounts according to ratios
 - If **partners' capital account results deficit assume partner is insolvent** and transfer the deficit to the other partners according to ratios
 - The sum of the **balances of the solvent partners' capital accounts should equal the cash available** to distribution to the solvent partners