FAC1601

ACCOUNTING REPORTING

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STUDY UNIT 1

INTRODUCTION TO THE PREPARATION OF FINANCIAL STATEMENTS

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A: TYPES OF FINANCIAL STATEMENTS AND NOTES

International Accounting Standards Board IAS1 (AC101)

Statements required by **IAS1** (**AC101):**

- **Statement of financial position:** shows the financial standing [assets, equity and liabilities] of an entity at a specific date.
- **Statement of comprehensive income:** shows the financial result [difference between income and expenditure for a specific financial period – normally a year.
- **Statement of changes in equity:** shows how equity changed during a financial period as a result of transactions affecting capital funds.
- **Statement of cash flows:** shows how cash was generated and used in operating, investing and financing activities during the year.
- **Notes to the financial statements:** include accounting policies information and additional explanatory information about the risks and uncertainties facing the enterprise.

B: YEAR-END ADJUSTMENTS

1. ADJUSTMENT OF THE ALLOWANCE FOR CREDIT LOSSES

The “Allowance for credit losses” is an accounting estimate of the amount of debt that are likely to be written off as irrecoverable.

- The balance of this account will always be a **CREDIT** balance.
- This credit balance can either **INCREASE** or **DECREASE**.

An **increase** will require the following accounting entries in the general ledger:

Dr – Credit losses, and
Cr – Allowance for credit losses

A **decrease** will require the following accounting entries in the general ledger:

Dr – Allowance for credit losses, and
Cr – Credit losses

Closing-off procedure:

- The **“Credit losses”** account is a nominal account which is closed off to the profit or loss account.

- The **“Allowance for credit losses”** account is a contra asset account which is not closed off. The balance of this account is deducted from **“Trade receivables”** figure in the statement of financial position for disclosure purposes.

EXAMPLE 1:

The following information pertains to Flashdisks Fast:

Debtors control	R10 000
Allowance for credit losses	R2 000

The allowance for credit losses must be adjusted to R2 500.

Allowance for credit losses

	R			R
		Balance	b/d	2 000

Credit losses

	R		R

EXAMPLE 1 (continued):
The following information pertains to Flashdisks Fast:

Debtors control	R10 000
Allowance for credit losses	R2 000

The allowance for credit losses must be adjusted to R2 500.

Allowance for credit losses

	R			R
		Balance	b/d	2 000
		Credit losses		500

Credit losses

	R		R
Allowance for credit losses	500		

EXAMPLE 1 (continued):

The following information pertains to Flashdisks Fast:

Debtors control	R10 000
Allowance for credit losses	R2 000

The allowance for credit losses must be adjusted to R2 500.

Allowance for credit losses

		R			R
Balance	c/d	2 500	Balance	b/d	2 000
			Credit losses		500
		2 500			2 500
			Balance	b/d	2 500

Credit losses

	R		R
Allowance for credit losses	500	Profit or loss account	500

EXAMPLE 2:

The following information pertains to Flashdisks Fast:

Debtors control	R10 000
Allowance for credit losses	R2 000

The allowance for credit losses must be adjusted to R1 200.

Dr Allowance for credit losses Cr

	R			R
Credit losses	800	Balance	b/d	2 000

Credit losses

	R		R
		Allowance for credit losses	800

EXAMPLE 2 (continued):

The following information pertains to Flashdisks Fast:

Debtors control	R10 000
Allowance for credit losses	R2 000

The allowance for credit losses must be adjusted to R1 200.

Dr Allowance for credit losses Cr

		R			R
Credit losses		800	Balance	b/d	2 000
Balance	c/d	1 200			
		2 000			2 000
			Balance	b/d	1 200

Credit losses

	R		R
Profit or loss	800	Allowance for credit losses	800

<u>EXAMPLE 3</u>:

The following information pertains to African Traders at 30 April 20.5, the end of the financial year:

Debtors control	R20 000
Allowance for credit losses	R1 000

Additional information:

On 1 April 20.5, a debtor of the business was declared insolvent. On this date, the debtor had a recorded balance of R5 000. This amount is included in the above debtors control figure of R20 000 and was not written off immediately. On 30 April 20.5 the business received 20% of the amount owed the debtor from his estate. An incompetent accountant of African Traders did not record this cash receipt in the books of the business. The accountant also neglected to write off the outstanding balance of the debtor's account as irrecoverable. After this incident, African Traders decided to adjust the balance of the allowance for credit losses account to R1 500.

Required:

Record the above information in the accounting records of African Traders.

2. ACCOUNTING FOR DEPRECIATION

Depreciation is a non-cash expense that reduces the value of an asset as a result of wear and tear, age or obsolescence.

Methods of depreciation:

1. **Straight-line method:**

   This method assumes that the asset will lose an equal amount of value on its cost price each year.

2. **Diminishing balance method:**

   A given percentage rate is deducted from the carrying amount (opening balance) instead of from the original cost to arrive at the amount of depreciation each year.

ACCOUNTING FOR DEPRECIATION

Dr	Accumulated depreciation			Cr
	R			**R**
		Balance	b/d	000

Dr	Depreciation		Cr
	R		**R**

ACCOUNTING FOR DEPRECIATION

Dr Accumulated depreciation **Cr**

	R			**R**
		Balance	b/d	000
		Depreciation		000

Dr Depreciation **Cr**

	R		**R**
Accumulated depreciation	000		

CLOSING-OFF PROCEDURE

Dr — Accumulated depreciation — Cr

		R			**R**
Balance	c/d	000	Balance	b/d	000
			Depreciation		000
		000			000
			Balance	b/d	000

The **“Accumulated depreciation”** account is a contra asset account which is not closed off. The balance of this account is deducted from the cost price of an asset to arrive at a carrying amount that is disclosed as **“Property, plant and equipment”** in the statement of financial position.

Dr — Depreciation — Cr

	R		R
Accumulated depreciation	000	Profit or loss	000

The **“Depreciation”** account is a nominal account which is closed off to the profit or loss account.

<u>EXAMPLE 4 (STRAIGHT-LINE METHOD)</u>:

At the beginning of a financial period, a business acquired equipment at a cost of R300 000 with an expected useful life of 5 years. The expected residual value at the end of the useful life of the equipment is R40 000. Calculate the carrying amount of the equipment at the end of year 1 and 2.

YEAR 1:

Depreciation for the year:	R(300 000 – 40 000) / 5 years = R52 000
Accumulated depreciation:	R52 000
Carrying amount:	R(300 000 – 52 000) = R248 000

YEAR 2:

Depreciation for the year:	R(300 000 – 40 000) / 5 years = R52 000
Accumulated depreciation:	R(52 000 + R52 000) = R104 000
Carrying amount:	R300 000 – R104 000 = R196 000

EXAMPLE 5 (DIMINISHING BALANCE METHOD):

At the beginning of a financial period, a business entity acquires an equipment at a cost of R300 000. Equipment is depreciated at 20% p.a. Using the diminishing balance method. Calculate the carrying amount of the equipment at the end of year 1 and 2.

YEAR 1:

Depreciation for the year:	R300 000 x 20% = R60 000
Accumulated depreciation:	R60 000
Carrying amount:	R(300 000 – 60 000) = R240 000

YEAR 2:

Depreciation for the year:	R(300 000 – 60 000) x 20% = R48 000
Accumulated depreciation:	R(60 000 + 48 000) = R108 000
Carrying amount:	R(300 000 – 108 000) = R192 000

EXAMPLE 6 (COMPREHENSIVE):

The following balances appeared in the accounting records of Flashdisks Fast at 28 February 20.7:

Vehicle at cost	R168 000
Equipment at cost	R48 000
Accumulated depreciation: Vehicle (1 March 20.6)	R27 900
Accumulated depreciation: Equipment (1 March 20.6)	R8 000

Additional information:

Depreciation for the year has not yet been provided for. It is the accounting policy of the business to provide for depreciation as follows:

Vehicles: According to the straight-line method, at 20% per annum.
Equipment: According to the diminishing balance method, at 25% per annum.

Required:

Calculate the amount that must be disclosed as the carrying amount of the vehicle and equipment as at 28 February 20.7 in the note pertaining to the financial statements of Flashdisks Fast.

SOURCE: *ACN102N/TL101/3/2007_ASS1_QUEST4*

STUDY UNIT 2

ESTABLISHMENT AND FINANCIAL STATEMENTS OF A PARTNERSHIP

A: FINANCIAL STATEMENTS OF PARTNERSHIPS

- Financial statements should comply with IAS (GAAP).
- A partnership is an accounting entity and not a legal entity.
- A partnership does not pay tax - the partners pay tax in their personal capacity.
- Salaries, bonuses and commissions to partners, interest on current and capital accounts, and drawings must be disclosed in the statement of changes in equity.
- Interest on loans to partners must be disclosed in the statement of comprehensive income as part of **“OTHER INCOME”**.
- Interest on loans from partners must be disclosed in the statement of comprehensive income as part of **“FINANCE COSTS”**.
- **If there is no agreement on how profits/losses are shared**, profits/losses are apportioned to partners according to their capital contributions.

B: FRAMEWORK OF THE STATEMENT OF COMPREHENSIVE INCOME

ABC TRADERS
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 20.9

	R
Revenue	000
Cost of sales	(000)
Gross profit	000
Other income	000
Profit on sale of office furniture	000
Distribution, administrative and other expenses	(000)
Credit losses	000
Bank charges	000
Salaries and wages	000
Depreciation	000
Finance costs	(000)
Interest on long-term loan	000
Profit for the year	000
Other comprehensive income for the year	000
Total comprehensive income for the year	000

EXAMPLE 1.1:

Paul and Shark are in partnership trading as Paul & Shark Traders. The following information is extracted from the accounting records of the partnership at 31 December 20.8:

Sales	R568 800
Cost of sales	R236 160
Settlement discount granted	R23 100
Allowance for settlement discount granted	R15 000

Required:

Prepare the trading section in the statement of comprehensive income of Paul & Shark Traders for the year ended 31 December 20.8.

PAUL & SHARK TRADERS
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 20.8

	R
Revenue R(568 800 – 23 100)	545 700
Cost of sales	(236 160)
Gross profit	309 540

EXAMPLE 1.2:

The following information is extracted from the accounting records of Paul & Shark Traders at 31 December 20.8, the end of the financial year:

Allowance for settlement discount received	R5 000
Interest on fixed deposit	R36 100
Profit on sale of vehicle	R22 000

Required:

Calculate the amount to be disclosed as "other income" in the statement of comprehensive income at the end of the financial year.

PAUL & SHARK TRADERS
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 20.8

	R
Gross profit	309 540
Other income	58 100
Interest income: Loans and receivables: Fixed deposit	36 100
Profit on sale of vehicle	22 000

EXAMPLE 1.3:

The following information is extracted from the accounting records of Paul & Shark Traders at 31 December 20.8, the end of the financial year:

Salaries and wages	R250 000
Credit losses	R2 500
Drawings	R13 500

Additional information:

Each partner is entitled to a salary of R5 000 per month. Only R80 000 has been paid to both partners as salaries and this amount is included in the salaries and wages figure.

Required:

Calculate the amount to be disclosed as distribution, administrative and other expenses in the statement of comprehensive income for the year ended 31 December 20.8.

PAUL & SHARK TRADERS
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 20.8

		R
Distribution, administrative and other expenses		(172 500)
Salaries and wages (R250 000 – 80 000)	170 000	
Credit losses	2 500	

EXAMPLE 1.4:

The following information is extracted from the accounting records of Paul & Shark Traders, at 31 December 20.8, the end of the financial year:

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

Additional information:

Paul granted the loan on 31 July 20.8 and interest is calculated at 15% per annum.

Required:

Calculate the amount to be disclosed as finance costs in the statement of comprehensive income for the year ended 31 December 20.8.

PAUL & SHARK TRADERS
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 20.8

		R
Finance costs		(24 375)
Interest on long-term loan	R(150 000 x 15%) x 5/12	9 375
Interest on bank overdraft		15 000

PAUL & SHARK TRADERS
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 20.8

	R
Revenue	545 700
Cost of sales	(236 160)
Gross profit	309 540
Other income	58 100
Interest income: Loans and receivables: Fixed deposit	36 100
Profit on sale of vehicle	22 000
Distribution, administrative and other expenses	(172 500)
Salaries and wages	170 000
Credit losses	2 500
Finance costs	(24 375)
Interest on long-term loan	9 375
Interest on bank overdraft	15 000
Profit for the year	170 765
Other comprehensive income for the year	-
Total comprehensive income for the year	170 765

C: FRAMEWORK OF THE STATEMENT OF CHANGES IN EQUITY

ABC TRADERS
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 28 FEBRUARY 20.9

	Capital		Current accounts		Appro-priation	Total equity
	George	Amani	George	Amani		
	R	R	R	R	R	R
Balances at 1 March 20.8	000	000	000	(000)	-	000

C: FRAMEWORK OF THE STATEMENT OF CHANGES IN EQUITY

ABC TRADERS
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 28 FEBRUARY 20.9

	Capital		Current accounts		Appro-priation	Total equity
	George	Amani	George	Amani		
	R	R	R	R	R	R
Balances at 1 March 20.8	000	000	000	(000)	-	000
Total comprehensive income for the year					000	000

C: FRAMEWORK OF THE STATEMENT OF CHANGES IN EQUITY

ABC TRADERS
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 28 FEBRUARY 20.9

	Capital		Current accounts		Appro-priation	Total equity
	George	Amani	George	Amani		
Balances at	R	R	R	R	R	R
1 March 20.8	000	000	000	(000)	-	000
Total comprehensive income for the year					000	000
Salaries to partners			000	000	(000)	

C: FRAMEWORK OF THE STATEMENT OF CHANGES IN EQUITY

ABC TRADERS
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 28 FEBRUARY 20.9

	Capital		Current accounts		Appro-priation	Total equity
	George	Amani	George	Amani		
Balances at	R	R	R	R	R	R
1 March 20.8	000	000	000	(000)	-	000
Total comprehensive income for the year					000	000
Salaries to partners			000	000	(000)	
Drawings			(000)	(000)		(000)

C: FRAMEWORK OF THE STATEMENT OF CHANGES IN EQUITY

ABC TRADERS
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 28 FEBRUARY 20.9

	Capital		Current accounts		Appro-priation	Total equity
	George	Amani	George	Amani		
Balances at	R	R	R	R	R	R
1 March 20.8	000	000	000	(000)	-	000
Total comprehensive income for the year					000	000
Salaries to partners			000	000	(000)	
Drawings			(000)	(000)		(000)
Interest on capital accounts			000	000	(000)	

C: FRAMEWORK OF THE STATEMENT OF CHANGES IN EQUITY

ABC TRADERS
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 28 FEBRUARY 20.9

	Capital		Current accounts		Appro-priation	Total equity
	George	Amani	George	Amani		
Balances at	**R**	**R**	**R**	**R**	**R**	**R**
1 March 20.8	000	000	000	(000)	-	000
Total comprehensive income for the year					000	000
Salaries to partners			000	000	(000)	
Drawings			(000)	(000)		(000)
Interest on capital accounts			000	000	(000)	
Interest on current accounts			000	(000)	000	

C: FRAMEWORK OF THE STATEMENT OF CHANGES IN EQUITY

ABC TRADERS
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 28 FEBRUARY 20.9

	Capital		Current accounts		Appro-priation	Total equity
	George	Amani	George	Amani		
Balances at	**R**	**R**	**R**	**R**	**R**	**R**
1 March 20.8	000	000	000	(000)	-	000
Total comprehensive income for the year					000	000
Salaries to partners			000	000	(000)	
Drawings			(000)	(000)		(000)
Interest on capital accounts			000	000	(000)	
Interest on current accounts			000	(000)	000	
Partners' share of total compr. income			000	000	(000)	
Balances at 28 February 20.9	000	000	000	000	000	000

EXAMPLE 1.1:

The following information is extracted from the accounting records of Paul & Shark Traders, at 31 December 20.8, the end of the financial year:

Capital: Paul	R62 500
Capital: Shark	R75 000
Current account: Paul (Dr) (1 January 20.8)	R2 500
Current account: Shark (Cr) (1 January 20.8)	R6 000
Total comprehensive income for the year	R170 765
Bank overdraft	R35 000

Required:

Using the information above, prepare an extract of the statement of changes in equity for the year ended 31 December 20.8.

PAUL & SHARK TRADERS
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 20.8

	Capital		Current accounts		Appro-priation	Total equity
	Paul	Shark	Paul	Shark		
	R	R	R	R	R	R
Balances at 1 January 20.8	62 500	75 000	(2 500)	6 000	-	141 000

EXAMPLE 1.2:

The following information is extracted from the accounting records of Paul & Shark Traders, at 31 December 20.8, the end of the financial year:

Total comprehensive income for the year	R170 765
Drawings: Paul	R4 500
Drawings: Shark	R6 000
Salaries and wages	R250 000

Additional information:

Each partner is entitled to a salary of R5 000 per month.

Required:

Using the information above, prepare an extract of the statement of changes in equity for the year ended 31 December 20.8.

PAUL & SHARK TRADERS
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 20.8

	Capital		Current accounts		Appro-priation	Total equity
	Paul	Shark	Paul	Shark		
	R	R	R	R	R	R
Total comprehensive income for the year					170 765	170 765
Salaries to partners			60 000	60 000	(120 000)	

EXAMPLE 1.3:

The following information is extracted from the accounting records of Paul & Shark Traders, at 31 December 20.8, the end of the financial year:

Total comprehensive income for the year	R170 765
Drawings: Paul	R4 500
Drawings: Shark	R6 000
Salaries and wages	R250 000

Additional information:

Each partner is entitled to a salary of R5 000 per month. Only R40 000 has been paid to each partner as salary and these amounts are included in the salaries and wages figure.

PAUL & SHARK TRADERS
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DEC 20.8

	Capital		Current accounts		Appro-priation	Total equity
	Paul	Shark	Paul	Shark		
	R	R	R	R	R	R
Total comprehensive income for the year					170 765	170 765
Salaries to partners			60 000	60 000	(120 000)	
Drawings			(44 500)	(46 000)		(90 500)

EXAMPLE 1.4:

The following information is extracted from the accounting records of Paul & Shark Traders, at 31 December 20.8, the end of the financial year:

Capital: Paul	R62 500
Capital: Shark	R75 000
Current account: Paul (Dr) (1 January 20.8)	R2 500
Current account: Shark (Cr) (1 January 20.8)	R6 000

The partnership agreement stipulates the following:

- Interest on capital at a rate of 10% per annum.
- Interest on the opening balances of the current accounts at 5% per annum.

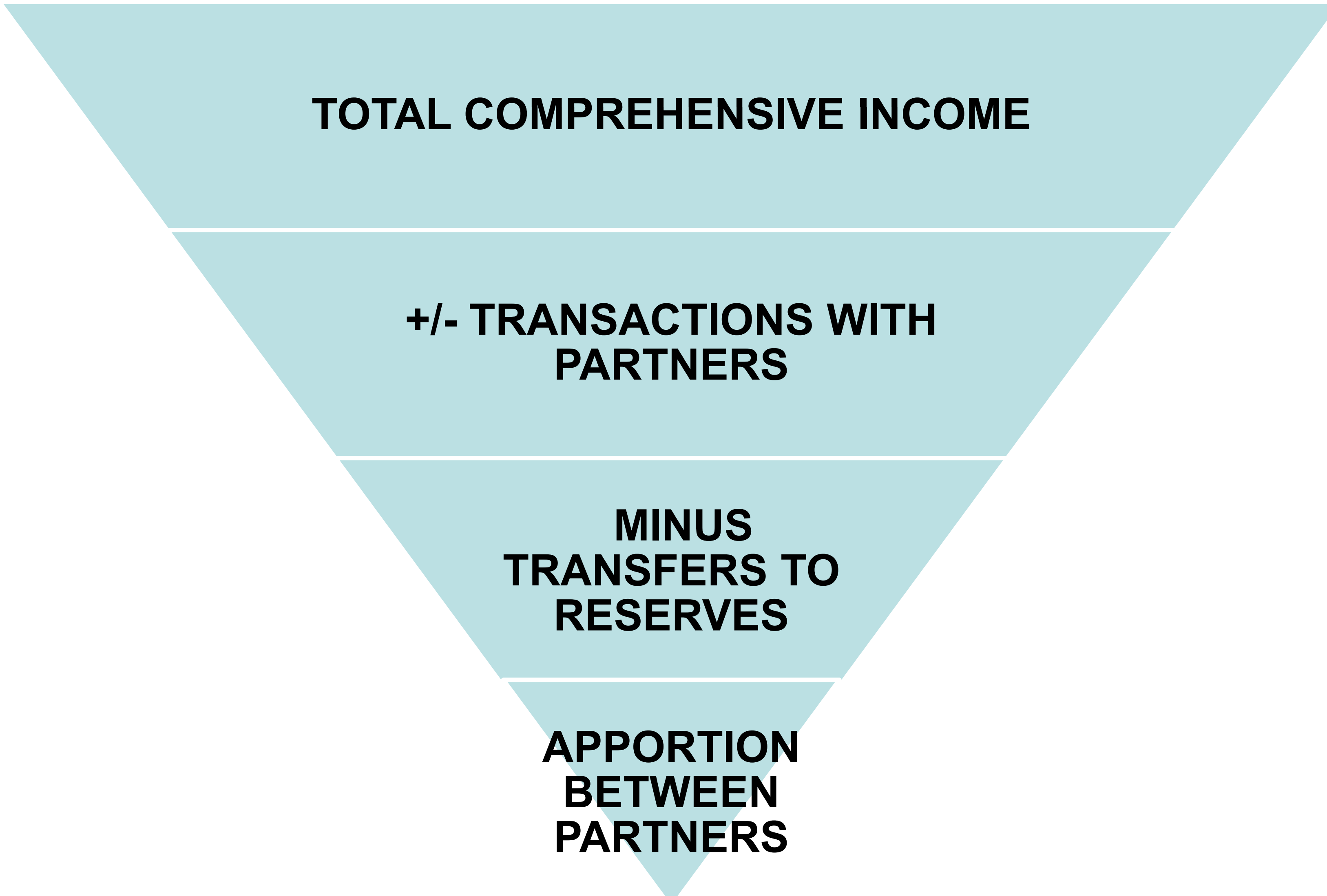
Required:

Using the information above, prepare an extract of the statement of changes in equity for the year ended 31 December 20.8.

PAUL & SHARK TRADERS
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DEC 20.8

	Capital		Current accounts		Appro-priation	Total equity
	Paul	Shark	Paul	Shark		
	R	R	R	R	R	R
Interest on capital			6 250	7 500	(13 750)	
Interest on current accounts			(125)	300	(175)	

APPROPRIATION ACCOUNT



EXAMPLE 1.5:

Assuming that Paul & Shark share profits and losses in the ratio of 3:2 respectively, calculate how the remaining balance in the appropriation account will be shared between the partners and disclosed in the statement of changes in equity.

PAUL & SHARK TRADERS
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DEC 20.8

	Capital		Current accounts		Appro-priation	Total equity
	Paul	Shark	Paul	Shark		
Balances at	R	R	R	R	R	R
1 January 20.8	62 500	75 000	(2 500)	6 000	-	141 000
Total comprehensive income for the year					170 765	170 765
Salaries to partners			60 000	60 000	(120 000)	
Drawings			(44 500)	(46 000)		(90 500)
Interest on capital			6 250	7 500	(13 750)	
Interest on current accounts			(125)	300	(175)	
Partners' share of total comprehensive income			22 104	14 736	(36 840)	
Balances at 31 December 20.8	62 500	75 000	41 229	42 536	-	221 265

D: FRAMEWORK OF THE STATEMENT OF FINANCIAL POSITION

ABC TRADERS
STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 20.9

	R
ASSETS	
Non-current assets	000
Property, plant and equipment	000
...	000
Current assets	
Inventories	000
Trade receivables	000
...	
Total assets	000

ABC TRADERS
STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 20.9

	R
ASSETS	
Non-current assets	000
Property, plant and equipment	000
Current assets	
Inventories	000
Trade receivables	000
Total assets	000
EQUITY AND LIABILITIES	
Total equity	000
Capital (A: R000; B: R000; C: R000)	000
Current accounts (A: R000; B: R000; C: R000)	000
Other components of equity	000
Total liabilities	000
Non-current liabilities	000
Long-term borrowings	000
Current liabilities	000
Trade and other payables	000
Current portion of long-term borrowings	000
Total equity and liabilities	000

EXAMPLE 1.6:

PAUL & SHARK TRADERS

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 20.8

	Capital		Current accounts		Appro-priation	Total equity
	Paul	Shark	Paul	Shark		
Balances at	R	R	R	R	R	R
1 January 20.8	62 500	75 000	(2 500)	6 000	-	141 000
……….	……….	……….	……….	……….	……….	……….
……….	……….	……….	……….	……….	……….	……….
Balances at						
31 December 20.8	62 500	75 000	33 861	49 904	-	221 265

PAUL & SHARK TRADERS

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 20.8 *(extract)*

	R
EQUITY AND LIABILITIES	
Total equity	221 265
Capital (Paul: R62 500; Shark: R75 000)	137 500
Current accounts (Paul: R33 861; Shark: R49 904)	83 765

EXAMPLE 1.7:

The following information is extracted from the accounting records of Paul & Shark Traders, at 31 December 20.8, the end of the financial year:

Creditors control	R140 000
Settlement discount granted	R2 500
Allowance for settlement discount received	R6 000
Long-term loan from Paul	R150 000

Required:

Using the information above, prepare an extract of the statement of financial position as at 31 December 20.8.

PAUL & SHARK TRADERS
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 20.8 *(extract)*

EQUITY AND LIABILITIES	**R**
Total equity	221 265
Capital (Paul: R62 500; Shark: R75 000)	137 500
Current accounts (Paul: R33 861; Shark: R49 904)	83 765
Total liabilities	284 000
Non-current liabilities	150 000
Long-term borrowings	150 000
Current liabilities	134 000
Trade and other payables R(140 000 – 6 000)	134 000
Total equity and liabilities	505 265

STUDY UNIT 3

CHANGES IN THE OWNERSHIP STRUCTURE OF PARTNERSHIPS

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A: RECORDING VALUATION ADJUSTMENTS

Valuation account and **Existing partners' Capital Accounts**

Valuation Adjustments

Dr: Decreases in value of assets

Cr: Increases in value of assets

Appropriate the balancing figure of the **"Valuation account"** to partners according to their profit-sharing ratio

EXAMPLE 1:

A and B were in partnership trading as AB Traders and sharing profits and losses in the ratio 3:1 respectively. They decided to admit C with effect from 1 January 20.7. The following information appeared in the accounting records of AB Traders as at 31 December 20.6:

Capital: A	R126 000
Capital: B	R42 000
Total assets: (Equipment R111 000 and inventory R57 000)	R168 000

In preparation for the change in the ownership structure of AB Traders, the partners agreed that equipment be valued at R126 000 and inventory at R52 000.

Required:

Prepare the valuation account to record the valuation adjustment on 31 Dec 20.6.

EXAMPLE 1 (continued):

A and B were in partnership trading as AB Traders and sharing profits and losses in the ratio 3:1 respectively. They decided to admit C with effect from 1 January 20.7. The following information appeared in the accounting records of AB Traders as at 31 December 20.6:

Capital: A	R126 000
Capital: B	R42 000
Total assets: (Equipment R111 000 and inventory R57 000)	R168 000

In preparation for the change in the ownership structure of AB Traders, the partners agreed that equipment be valued at R126 000 and inventory at R52 000.

Required:

Prepare the valuation account to record the valuation adjustment on 31 Dec 20.6.

Dr Valuation account Cr

	R		R
Inventory	5 000	Equipment	15 000

<u>EXAMPLE 1 (continued)</u>:

A and B were in partnership trading as AB Traders and sharing profits and losses in the ratio 3:1 respectively. They decided to admit C with effect from 1 January 20.7. The following information appeared in the accounting records of AB Traders as at 31 December 20.6:

Capital: A	R126 000
Capital: B	R42 000
Total assets: (Equipment R111 000 and inventory R57 000)	R168 000

In preparation for the change in the ownership structure of AB Traders, the partners agreed that equipment be valued at R126 000 and inventory at R52 000.

Required:

Prepare the valuation account to record the valuation adjustment on 31 Dec 20.6.

Dr — Valuation account — Cr

	R		R
Inventory	5 000	Equipment	15 000
Capital: A (3/4 x R10 000)	7 500		
Capital: B (1/4 x R10 000)	2 500		
	15 000		15 000

B: CALCULATION OF GOODWILL ACQUIRED

The capital contribution of the incoming partner

MULTIPLIED BY

Inverse of the incoming partner’s share

MINUS

Total equity of existing partners
(inclusive of valuation adjustments)

AND

Capital contribution by the incoming partner

=

GOODWILL

EXAMPLE 2:

A and B were in partnership trading as AB Traders and sharing profits and losses in the ratio 3:1 respectively. They decided to admit C with the effect from 1 January 20.7. 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 information appeared in the accounting records of the partnership at 31 December 20.6:

Capital: A	R126 000
Capital: B	R42 000
Total assets: (Equipment R111 000 and inventory R57 000)	R168 000

In preparation for the change in the ownership structure of the partnership, the partners agreed that equipment should be valued at R126 000 and inventory at R52 000.

Required:
Calculate the goodwill of the partnership on 31 December 20.6.

CAPITAL CONTRIBUTION OF C *TIMES* INVERSE OF C'S SHARE:
R(30 000 + 40 000) x 5/1 = R350 000

EQUITY OF A, B AND C:
R[(126 000 + 7 500) + (42 000 + 2 500) + (30 000 + 40 000)] = R248 000

GOODWILL = R102 000

C: RECORDING GOODWILL

Goodwill

	R		R
Capital: A	76 500		
Capital: B	25 500		
	102 000		

Capital: A

	R			R
		Balance	b/d	126 000
		Valuation account		7 500
		Goodwill		76 500
				210 000

Capital: B

	R			R
		Balance	b/d	42 000
		Valuation account		2 500
		Goodwill		25 500
				70 000

STUDY UNIT 4

THE LIQUIDATION OF A PARTNERSHIP

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A: LIQUIDATION METHODS

1. **Simultaneous liquidation:**

   Assets of the partnership are sold and liabilities settled over a short period of time. Any remaining cash is distributed to the partners according to their capital account balances.

2. **Piecemeal liquidation:**

   Assets are sold in piecemeal fashion and available cash is first used to settle liabilities, and once the liabilities have been paid in full, the remaining cash is paid to the partners.

B: SIMULTANEOUS LIQUIDATION OF A PARTNERSHIP

Liquidation Account

All assets, liabilities (**except Bank)** and contra accounts of assets are transferred to this account

Contra from bank account

Bank Account

Cash received on sale of assets and cash paid in settlement of liabilities (Contra to liquidation account)

Final settlement

Partners Capital Accounts

Assets and liabilities taken over by partners.

Share of profits/losses from liquidation account

Final settlement

IMPORTANT

Asset replacement reserve and goodwill accounts are **NOT** transferred to the **"Liquidation account"** but closed off to partners' capital accounts

QUESTION 1

Mark and Fish are in partnership, sharing profits and losses in the ratio of 2:1 respectively. They decided to dissolve the partnership simultaneously at the end of the current financial year and the following information is extracted from the partnership accounting records on this date.

	R
Capital: Mark	330 000
Capital: Fish	280 000
Land and buildings at cost	330 000
Furniture at cost	45 000
Accumulated depreciation	10 000
Goodwill	135 000
Asset replacement reserve	105 000
Debtors control	160 000
Bank (debit)	140 000
Long-term loan (ABC Bank)	85 000

Additional information:

(1) The land and buildings were sold for R450 000 cash.
(2) The long-term loan was repaid in full.
(3) The furniture was sold for cash at a profit of R3 000.
(4) 95% of the debtors settled their accounts at a discount of 10%. The outstanding balance of 5% was regarded as irrecoverable.
(5) The liquidation costs amounted to R6 000, and were paid for in cash.

Required: Prepare the accounts in the general ledger to dissolve the partnership.

CALCULATION 1

Allocation of goodwill to partners:

- **Mark = R135 000 x 2/3 = R90 000**
- **Fish = R135 000 x 1/3 = R45 000**

<u>QUESTION 1 (continued)</u>:

Mark and Fish are in partnership, sharing profits and losses in the ratio of 2:1 respectively. They decided to dissolve the partnership simultaneously at the end of the current financial year and the following information is extracted from the partnership accounting records on this date.

	R
Capital: Mark	330 000
Capital: Fish	280 000
Land and buildings at cost	330 000
Furniture at cost	45 000
Accumulated depreciation	10 000
Goodwill	135 000
Asset replacement reserve	105 000
Debtors control	160 000
Bank (debit)	140 000
Long-term loan (ABC Bank)	85 000

Additional information:

(1) The land and buildings were sold for R450 000 cash.
(2) The long-term loan was repaid in full.
(3) The furniture was sold for cash at a profit of R3 000.
(4) 95% of the debtors settled their accounts at a discount of 10%. The outstanding balance of 5% was regarded as irrecoverable.
(5) The liquidation costs amounted to R6 000, and were paid for in cash.

Required: Prepare the accounts in the general ledger to dissolve the partnership.

CALCULATION 2

Allocation of goodwill to partners:

- **Mark = R135 000 x 2/3 = R90 000**
- **Fish = R135 000 x 1/3 = R45 000**

Allocation of “Asset replacement reserve” to partners:

- **Mark = R105 000 x 2/3 = R70 000**
- **Fish = R105 000 x 1/3 = R35 000**

QUESTION 1 (continued):

Mark and Fish are in partnership, sharing profits and losses in the ratio of 2:1 respectively. They decided to dissolve the partnership simultaneously at the end of the current financial year and the following information is extracted from the partnership accounting records on this date.

	R
Capital: Mark	330 000
Capital: Fish	280 000
Land and buildings at cost	330 000
Furniture at cost	45 000
Accumulated depreciation	10 000
Goodwill	135 000
Asset replacement reserve	105 000
Debtors control	160 000
Bank (debit)	140 000
Long-term loan (ABC Bank)	85 000

Additional information:

(1) The land and buildings were sold for R450 000 cash.
(2) The long-term loan was repaid in full.
(3) The furniture was sold for cash at a profit of R3 000.
(4) 95% of the debtors settled their accounts at a discount of 10%. The outstanding balance of 5% was regarded as irrecoverable.
(5) The liquidation costs amounted to R6 000, and were paid for in cash.

Required: Prepare the accounts in the general ledger to dissolve the partnership.

CALCULATION 3

Proceeds on sale of furniture:

	R
Balance (at cost) − *(given)*	45 000
Less: Accumulated depreciation − (*given)*	(10 000)
Carrying amount at date of liquidation	35 000
Add: Profit on sale – *(given)*	3 000
Proceeds on sale of furniture	38 000

QUESTION 1 (continued):

Mark and Fish are in partnership, sharing profits and losses in the ratio of 2:1 respectively. They decided to dissolve the partnership simultaneously at the end of the current financial year and the following information is extracted from the partnership accounting records on this date.

	R
Capital: Mark	330 000
Capital: Fish	280 000
Land and buildings at cost	330 000
Furniture at cost	45 000
Accumulated depreciation	10 000
Goodwill	135 000
Asset replacement reserve	105 000
Debtors control	160 000
Bank (debit)	140 000
Long-term loan (ABC Bank)	85 000

Additional information:

(1) The land and buildings were sold for R450 000 cash.
(2) The long-term loan was repaid in full.
(3) The furniture was sold for cash at a profit of R3 000.
(4) 95% of the debtors settled their accounts at a discount of 10%. The outstanding balance of 5% was regarded as irrecoverable.
(5) The liquidation costs amounted to R6 000, and were paid for in cash.

Required: Prepare the accounts in the general ledger to dissolve the partnership.

C: PIECEMEAL LIQUIDATION

Assets are sold in piecemeal fashion (bit by bit) and available cash is first used to settle liabilities and thereafter paid out as interim repayments to partners.

D: PIECEMEAL LIQUIDATION - GOLDEN RULES

- Open the applicable accounts in columnar form with balances;
- Close off “Reserve and Goodwill” accounts to partners capital accounts;
- Apportion profits or losses from each realisation of assets to capital accounts;
- When cash becomes available, all liabilities must be paid until they are fully settled before partners get any amount as capital repayment;
- Once the liabilities are fully settled, a calculation is done to determine how **interim repayments** must be made to partners, if cash is available:
    - Commence with the balances at the date when cash is available for distribution;
    - Assume that unsold assets are worthless and apportion the potential deficit to the partners’ capital accounts according to their profit-sharing ratio;
    - If a partner’s capital account results in a deficit, assume that the partner is insolvent and transfer the deficit to the other partners according to *their* profit-sharing ratio;
    - The sum of the balances of the solvent partners’ capital accounts should equal the cash that is available for distribution to the solvent partners.

EXAMPLE: PIECEMEAL LIQUIDATION OF A PARTNERSHIP (EXAMPLE 4.3, page 66 of Study Guide)

	Bank	Cred. control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balance at the commencement of liquidation		(3 000)	18 000	(8 000)	(5 000)	(2 000)

EXAMPLE: PIECEMEAL LIQUIDATION OF A PARTNERSHIP
(EXAMPLE 4.3, page 66 of Study Guide)

	Bank	Cred. control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balance at the commencement of liquidation		(3 000)	18 000	(8 000)	(5 000)	(2 000)
Sale of assets (1st liq)	2 500		(2 500)			

EXAMPLE: PIECEMEAL LIQUIDATION OF A PARTNERSHIP (EXAMPLE 4.3, page 66 of Study Guide)

	Bank	Cred. control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balance at the commencement of liquidation		(3 000)	18 000	(8 000)	(5 000)	(2 000)
Sale of assets (1st liq)	2 500		(2 500)			
Payment to creditors	(2 500)	2 500				

EXAMPLE: PIECEMEAL LIQUIDATION OF A PARTNERSHIP (EXAMPLE 4.3, page 66 of Study Guide)

	Bank	Cred. control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balance at the commencement of liquidation		(3 000)	18 000	(8 000)	(5 000)	(2 000)
Sale of assets (1st liq)	2 500		(2 500)			
Payment to creditors	(2 500)	2 500				
Sale of assets (2nd liq) and allocation of loss	5 000		(5 600)	300	180	120

EXAMPLE: PIECEMEAL LIQUIDATION OF A PARTNERSHIP (EXAMPLE 4.3, page 66 of Study Guide)

	Bank	Cred. control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balance at the commencement of liquidation		(3 000)	18 000	(8 000)	(5 000)	(2 000)
Sale of assets (1st liq)	2 500		(2 500)			
Payment to creditors	(2 500)	2 500				
Sale of assets (2nd liq) and allocation of loss	5 000		(5 600)	300	180	120
Payment to creditors	(500)	500				

EXAMPLE: PIECEMEAL LIQUIDATION OF A PARTNERSHIP (EXAMPLE 4.3, page 66 of Study Guide)

	Bank	Cred. control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balance at the commencement of liquidation		(3 000)	18 000	(8 000)	(5 000)	(2 000)
Sale of assets (1st liq)	2 500		(2 500)			
Payment to creditors	(2 500)	2 500				
Sale of assets (2nd liq) and allocation of loss	5 000		(5 600)	300	180	120
Payment to creditors	(500)	500				
	4 500	-	9 900	(7 700)	(4 820)	(1 880)

EXAMPLE: PIECEMEAL LIQUIDATION OF A PARTNERSHIP (EXAMPLE 4.3, page 66 of Study Guide)

	Bank	Cred. control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balance at the commencement of liquidation		(3 000)	18 000	(8 000)	(5 000)	(2 000)
Sale of assets (1st liq)	2 500		(2 500)			
Payment to creditors	(2 500)	2 500				
Sale of assets (2nd liq) and allocation of loss	5 000		(5 600)	300	180	120
Payment to creditors	(500)	500				
	4 500	-	9 900	(7 700)	(4 820)	(1 880)

Interim repayments (loss-absorption-capacity method)						
Balances when cash is available for int. repayments	4 500	-	9 900	(7 700)	(4 820)	(1 880)

EXAMPLE: PIECEMEAL LIQUIDATION OF A PARTNERSHIP (EXAMPLE 4.3, page 66 of Study Guide)

	Bank	Cred. control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balance at the commencement of liquidation		(3 000)	18 000	(8 000)	(5 000)	(2 000)
Sale of assets (1st liq)	2 500		(2 500)			
Payment to creditors	(2 500)	2 500				
Sale of assets (2nd liq) and allocation of loss	5 000		(5 600)	300	180	120
Payment to creditors	(500)	500				
	4 500	-	9 900	(7 700)	(4 820)	(1 880)

Interim repayments (loss-absorption-capacity method)						
Balances when cash is available for int. repayments	4 500	-	9 900	(7 700)	(4 820)	(1 880)
Assets “written off”			(9 900)	4 950	2 970	1 980

EXAMPLE: PIECEMEAL LIQUIDATION OF A PARTNERSHIP (EXAMPLE 4.3, page 66 of Study Guide)

	Bank	Cred. control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balance at the commencement of liquidation		(3 000)	18 000	(8 000)	(5 000)	(2 000)
Sale of assets (1st liq)	2 500		(2 500)			
Payment to creditors	(2 500)	2 500				
Sale of assets (2nd liq) and allocation of loss	5 000		(5 600)	300	180	120
Payment to creditors	(500)	500				
	4 500	-	9 900	(7 700)	(4 820)	(1 880)

Interim repayments (loss-absorption-capacity method)						
Balances when cash is available for interim repayments	4 500	-	9 900	(7 700)	(4 820)	(1 880)
Assets "written off"			(9 900)	4 950	2 970	1 980
	4 500	-	-	(2 750)	(1 850)	100

EXAMPLE: PIECEMEAL LIQUIDATION OF A PARTNERSHIP (EXAMPLE 4.3, page 66 of Study Guide)

	Bank	Cred. control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balance at the commencement of liquidation		(3 000)	18 000	(8 000)	(5 000)	(2 000)
Sale of assets (1st liq)	2 500		(2 500)			
Payment to creditors	(2 500)	2 500				
Sale of assets (2nd liq) and allocation of loss	5 000		(5 600)	300	180	120
Payment to creditors	(500)	500				
	4 500	-	9 900	(7 700)	(4 820)	(1 880)

Interim repayments (loss-absorption-capacity method)						
Balances when cash is available for int. repayments	4 500	-	9 900	(7 700)	(4 820)	(1 880)
Assets "written off"			(9 900)	4 950	2 970	1 980
	4 500	-	-	(2 750)	(1 850)	100
Allocation of "capital deficit"				62	38	(100)

EXAMPLE: PIECEMEAL LIQUIDATION OF A PARTNERSHIP (EXAMPLE 4.3, page 66 of Study Guide)

	Bank	Cred. control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balance at the commencement of liquidation		(3 000)	18 000	(8 000)	(5 000)	(2 000)
Sale of assets (1st liq)	2 500		(2 500)			
Payment to creditors	(2 500)	2 500				
Sale of assets (2nd liq) and allocation of loss	5 000		(5 600)	300	180	120
Payment to creditors	(500)	500				
	4 500	-	9 900	(7 700)	(4 820)	(1 880)

Interim repayments (loss-absorption-capacity method)						
Balances when cash is available for int. repayments	4 500	-	9 900	(7 700)	(4 820)	(1 880)
Assets "written off"			(9 900)	4 950	2 970	1 980
	4 500	-	-	(2 750)	(1 850)	100
Allocation of "capital deficit"				62	38	(100)
	4 500	-	-	(2 688)	(1 812)	-

EXAMPLE: PIECEMEAL LIQUIDATION OF A PARTNERSHIP (EXAMPLE 4.3, page 66 of Study Guide)

	Bank	Cred. control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balance at the commencement of liquidation		(3 000)	18 000	(8 000)	(5 000)	(2 000)
Sale of assets (1st liq)	2 500		(2 500)			
Payment to creditors	(2 500)	2 500				
Sale of assets (2nd liq) and allocation of loss	5 000		(5 600)	300	180	120
Payment to creditors	(500)	500				
	4 500	–	9 900	(7 700)	(4 820)	(1 880)
First interim repayments	(4 500)	–	–	2 688	1 812	–

Interim repayments (loss-absorption-capacity method)						
Balances when cash is available for int. repayments	4 500	–	9 900	(7 700)	(4 820)	(1 880)
Assets "written off"			(9 900)	4 950	2 970	1 980
	4 500	–	-	(2 750)	(1 850)	100
Allocation of "capital deficit"				62	38	(100)
	4 500	–	–	(2 688)	(1 812)	–

EXAMPLE: PIECEMEAL LIQUIDATION OF A PARTNERSHIP (EXAMPLE 4.3, page 66 of Study Guide)

	Bank	Cred. control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balances brought forward	-	-	9 900	(5 012)	(3 008)	(1 880)

EXAMPLE: PIECEMEAL LIQUIDATION OF A PARTNERSHIP (EXAMPLE 4.3, page 66 of Study Guide)

	Bank	Cred. control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balances brought forward	-	-	9 900	(5 012)	(3 008)	(1 880)
Sale of assets (3rd liq)	6 000		(6 000)			

EXAMPLE: PIECEMEAL LIQUIDATION OF A PARTNERSHIP (EXAMPLE 4.3, page 66 of Study Guide)

	Bank	Cred. control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balances brought forward	-	-	9 900	(5 012)	(3 008)	(1 880)
Sale of assets (3rd liq)	6 000		(6 000)			
Balances brought forward	6 000		3 900	(5 012)	(3 008)	(1 880)

EXAMPLE: PIECEMEAL LIQUIDATION OF A PARTNERSHIP (EXAMPLE 4.3, page 66 of Study Guide)

	Bank	Cred. control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balances brought forward	-	-	9 900	(5 012)	(3 008)	(1 880)
Sale of assets (3rd liq)	6 000		(6 000)			
Balances brought forward	6 000		3 900	(5 012)	(3 008)	(1 880)

Interim repayments (loss-absorption-capacity method)						
Balances when cash is available for int. repayments	6 000	-	3 900	(5 012)	(3 008)	(1 880)

EXAMPLE: PIECEMEAL LIQUIDATION OF A PARTNERSHIP (EXAMPLE 4.3, page 66 of Study Guide)

	Bank	Cred. control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balances brought forward	-	-	9 900	(5 012)	(3 008)	(1 880)
Sale of assets (3rd liq)	6 000		(6 000)			
Balances brought forward	6 000		3 900	(5 012)	(3 008)	(1 880)

Interim repayments (loss-absorption-capacity method)						
Balances when cash is available for int. repayments	6 000	-	3 900	(5 012)	(3 008)	(1 880)
Assets “written off”			(3 900)	1 950	1 170	780

EXAMPLE: PIECEMEAL LIQUIDATION OF A PARTNERSHIP (EXAMPLE 4.3, page 66 of Study Guide)

	Bank	Cred. control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balances brought forward	-	-	9 900	(5 012)	(3 008)	(1 880)
Sale of assets (3rd liq)	6 000		(6 000)			
Balances brought forward	6 000		3 900	(5 012)	(3 008)	(1 880)

Interim repayments (loss-absorption-capacity method)						
Balances when cash is available for int. repayments	6 000	-	3 900	(5 012)	(3 008)	(1 880)
Assets “written off”			(3 900)	1 950	1 170	780
	6 000	-	-	(3 062)	(1 838)	(1 100)

EXAMPLE: PIECEMEAL LIQUIDATION OF A PARTNERSHIP (EXAMPLE 4.3, page 66 of Study Guide)

	Bank	Cred. control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balances brought forward	-	-	9 900	(5 012)	(3 008)	(1 880)
Sale of assets (3rd liq)	6 000		(6 000)			
Balances brought forward	6 000		3 900	(5 012)	(3 008)	(1 880)
Interim repayments	(6 000)	-	-	3 062	1 838	1 100

Interim repayments (loss-absorption-capacity method)						
Balances when cash is available for int. repayments	6 000	-	3 900	(5 012)	(3 008)	(1 880)
Assets "written off"			(3 900)	1 950	1 170	780
	6 000	-	-	(3 062)	(1 838)	(1 100)

E: SUMMARY: PIECEMEAL LIQUIDATION - GOLDEN RULES

- Open the applicable accounts in columnar form with balances;
- Close off “Reserve and Goodwill” accounts to partners capital accounts;
- Apportion profits or losses from each realisation of assets to capital accounts;
- When cash becomes available, all liabilities must be paid until they are fully settled before partners may get any amount as capital repayment;
- Once liabilities are fully settled, and cash is available, interim cash repayments can be made to partners by applying the loss-absorption capacity method;
  - Commence with the balances at the date when cash is available for distribution;
  - Assume that unsold assets are worthless and apportion the potential deficit to the partners’ capital accounts according to their profit-sharing ratio;
  - If a partner’s capital account results in a deficit, assume that the partner is insolvent and transfer the deficit to the other partners according to *their* profit-sharing ratio;
  - The sum of the balances of the solvent partners’ capital accounts should equal the cash that is available for distribution to the solvent partners.

STUDY UNIT 5

CLOSE CORPORATIONS

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A: FRAMEWORK OF THE STATEMENT OF COMPREHENSIVE INCOME

PITSO CC
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 20.9

	R
Revenue	000
Cost of sales	(000)
Gross profit	000
Other income	000
Profit on sale of office furniture	000
Distribution, administrative and other expenses	(000)
Remuneration: Accounting officer	00
Salaries and wages	00
Salaries to members	000
Depreciation	000
Finance costs	(00)
Interest on long-term loan	00
Profit before tax	000
Income tax expense	(000)
Profit for the year	000
Other comprehensive income for the year	00
Total comprehensive income for the year	000

EXAMPLE 1.1: The following information is extracted from the accounting records of Travelgate CC at 28 February 20.9, the end of the financial year:

Salaries and wages	R250 000
Credit losses	R2 500

Additional information:
Mr Travel, a member of the corporation, is entitled to a salary of R60 000 for his specialised management service to the corporation. This amount is included in the salaries and wages figure above.

Required:
Calculate the amount to be disclosed as distribution, administrative and other expenses in the statement of comprehensive income for the year ended 28 February 20.9.

TRAVELGATE CC
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 20.9 *(EXTRACT)*

	R
Distribution, administrative and other expenses	(262 500)
Salaries and wages R(250 000 – 60 000)	190 000
Salaries to members	60 000
Credit losses	2 500

EXAMPLE 1.2: The following information is extracted from the accounting records of Travelgate CC at 28 Feb 20.9, the end of the financial year:

SARS (Income Tax)	R50 000 (Dr)
Profit before tax	R398 000

Additional information:
The SA normal income tax assessment for the financial year was received on 1 March 20.9, indicating a balance of R61 440 owing by the corporation.

Required:
With regard to Travelgate CC, calculate the total comprehensive income for the year ended 28 February 20.9.

TRAVELGATE CC
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 20.9 ***(EXTRACT)***

Finance costs	-
Interest on long-term loan	-
Profit before tax	398 000
Income tax expense R(50 000 + 61 440)	(111 440)
Profit for the year	286 560
Other comprehensive income for the year	-
Total comprehensive income for the year	286 560

EXAMPLE 1.3: The following information is extracted from the accounting records of Travelgate CC at 28 Feb 20.9, the end of the financial year:

SARS (Income Tax)	R50 000 (Dr)
Profit before tax	R398 000

Additional information:
The income tax assessment for the financial year was received on 1 March 20.9 indicating that the actual normal income tax for the financial year amounted to R111 440.

Required:
With regard to Travelgate CC, calculate the total comprehensive income for the year ended 28 February 20.9.

TRAVELGATE CC
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 20.9 ***(EXTRACT)***

Finance costs	-
Interest on long-term loan	-
Profit before tax	398 000
Income tax expense	(111 440)
Profit for the year	286 560
Other comprehensive income for the year	-
Total comprehensive income for the year	286 560

B: FRAMEWORK OF THE STATEMENT OF CHANGES IN NET INVESTMENT OF MEMBERS

PITSO CC
STATEMENT OF CHANGES IN NET INVESTMENT OF MEMBERS FOR THE YEAR ENDED 28 FEBRUARY 20.9

	Members' contributions	Retained earnings	Loans from members	Asset replacement reserve	Total
	R	R	R	R	R
Balances at 1 March 20.8	000	000	000	000	000
Total comprehensive income for the year		000			000
Transfer to asset replacement reserve		(000)		000	
Distribution to members		(000)			(000)
Loans from members			000		000
Balances at 28 February 20.9	000	000	000	000	000
Non-current liability			000		
Current liability			00		

EXAMPLE 2.1:
The following information is extracted from the accounting records of Travelgate CC, at 28 February 20.9, the end of the financial year:

Member’s contribution: T Travel	R62 500
Member’s contribution: G Gate	R75 000
Retained earnings (1 March 20.8)	R318 900
Asset replacement reserve (1 March 20.8)	R22 500

Required:
Using the information above, prepare an extract of the statement of changes in net investment of members for the year ended 28 February 20.9.

TRAVELGATE CC
STATEMENT OF CHANGES IN NET INVESTMENT OF MEMBERS FOR THE YEAR ENDED 28 FEBRUARY 20.9 ***(EXTRACT)***

	Members’ contribu-tions	Retained earnings	Asset replace-ment reserve	Total
	R	R	R	R
Balances at 1 March 20.8	137 500	318 900	22 500	478 900

EXAMPLE 2.2: The following information is extracted from the accounting records of Travelgate CC, at 28 February 20.9, the end of the financial year:

Total comprehensive income for the year	R286 560
Interim profit distribution to members	R20 000

Additional information:

- A further profit distribution of R5 000 was made to the members.
- The members agreed that R35 000 of the total comprehensive income for the year must be transferred to the asset replacement reserve.

Required:
Using the information above, prepare an extract of the statement of changes in net investment of members for the year ended 28 February 20.9.

TRAVELGATE CC
STATEMENT OF CHANGES IN NET INVESTMENT OF MEMBERS FOR THE YEAR ENDED 28 FEBRUARY 20.9 *(EXTRACT)*

	Members' contributions	Retained earnings	Asset replacement reserve	Total
	R	R	R	R
Total comprehensive income for the year		286 560		
Distribution to members		(25 000)		(25 000)
Transfer to asset repl. res.		(35 000)	35 000	

TRAVELGATE CC
STATEMENT OF CHANGES IN NET INVESTMENT OF MEMBERS FOR THE YEAR ENDED 28 FEBRUARY 20.9

	Members' contributions	Retained earnings	Asset replacement reserve	Total
	R	R	R	R
Balances at 1 March 20.8	137 500	318 900	22 500	478 900
Total comprehensive income for the year		286 560		286 560
Distribution to members		(25 000)		(25 000)
Transfer to asset replacement reserve		(35 000)	35 000	
Balances at 28 Feb. 20.9	137 500	545 460	57 500	740 460

C: FRAMEWORK OF THE STATEMENT OF FINANCIAL POSITION: ASSETS

PITSO CC
STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 20.9 *(EXTRACT)*

	R
ASSETS	
Non-current assets	0 000
Property, plant and equipment	000
Financial assets	000
Current assets	0 000
Inventories	000
Trade receivables	000
Prepayments	000
Other financial assets	000
Cash and cash equivalents	
Total assets	0 000

D: FRAMEWORK OF THE STATEMENT OF FINANCIAL POSITION: EQUITY AND LIABILITIES

PITSO CC
STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 20.9 *((EXTRACT)*

Total assets	0 000
EQUITY AND LIABILITIES	
Total equity	0 000
Members' contributions	000
Retained earnings	000
Other components of equity	000
Total liabilities	0 000
Non-current liabilities	000
Long-term borrowings	000
Current liabilities	0 000
Trade and other payables	000
Distribution to members payable	000
Current tax payable	000
Total equity and liabilities	0 000

E: PRESENTATION OF THE "TOTAL EQUITY" SECTION IN THE STATEMENT OF FINANCIAL POSITION

TRAVELGATE CC
STATEMENT OF CHANGES IN NET INVESTMENT OF MEMBERS FOR THE YEAR ENDED 28 FEBRUARY 20.9

	Members' contributions	Retained earnings	Asset replacement reserve	Total
	R	R	R	R
Balances at 1 March 20.8	137 500	318 900	22 500	478 900
Total comprehensive income for the year		286 560		286 560
Distribution to members		(25 000)		(25 000)
Transfer to asset replacement reserve		(35 000)	35 000	
Balances at 28 Feb. 20.9	137 500	545 460	57 500	740 460

EQUITY AND LIABILITIES	
Total equity	740 460
Members' contributions	137 500
Retained earnings	545 460
Other components of equity	57 500