CHAPTER 2
CLOSE CORPORATIONS

The close corporation was introduced by the Close Corporations Act 69 of 1984. This form of enterprise is less complex and much easier to administer than a company and is especially suitable for people wanting to set up a smaller business enterprise.

The administration of a close corporation falls under the control of the Registrar of Close Corporations in Pretoria to whom certain documents, including the founding statement for the formation of the close corporation, must be submitted on registration.

The founding statement must contain the following details:

- The full name of the proposed close corporation
- The principle business in which the corporation will be engaged
- The postal and physical address of the registered office of the corporation
- The name, profession and postal address of the accounting officer (person or firm)
- The full names, addresses and identity numbers of each member
- The interest of each member, expressed as a percentage
- Particulars of the contribution made by each member
- The date on which the close corporation's financial year ends.

A registration number is allocated to the close corporation on registration and this number as well as the letters "CC" must always be displayed outside its registered office and on all its business documents.

One to ten members can form a close corporation and the general principle is that only natural persons may be members.

A close corporation has a separate legal personality and is regarded as a private company for tax purposes, paying tax according to company tax scales. Distribution of profit to members is not taxed in the hands of the members.

The liability of the members is limited to their investment in the close corporation. However, section 63 of the Close Corporations Act provides for the loss of limited liability when members can become jointly and severally liable for the debts of the close corporation, if certain portions of the Act are contravened.

Some examples of the conditions under which the protection of limited liability may be forfeited are when:

- The number of members exceeds the maximum of ten for a period longer than six months
- The position of accounting officer is vacant for longer than six months
- Business is carried out with gross negligence or with the intent to fraud
- Capital is repaid or profits distributed to members when specific solvency and liquidity requirements are not met by the corporation.

Accounting and reporting requirements

According to the Close Corporations Act, a close corporation must keep accounting records similar to the records required of companies. The records must include the following:

- Records showing assets and liabilities
- A register of property, plant and equipment
- Records containing daily entries of all cash received and disbursed (paid out)
- Records of all credit purchases or sales of goods and services received or rendered on credit in sufficient detail to enable for the nature of the transaction and the parties concerned to be identified
- Statements of annual inventory taking
- Records which make it possible to determine the value of inventory at the end of the year
- Vouchers supporting entries in the accounting records

A close corporation must also keep the following:

- Records of members' contributions, accumulated profits, revaluations of non-current assets and amounts of loans to and from members.

These records must also be sufficiently detailed for the nature and purpose of the individual transactions to be clearly identified. They must be kept in such a manner that they are adequately protected against any attempts to falsify them and any such attempts should be easy to identify. A corporation, which fails to keep such records, and every member who fails to take all reasonable steps to prevent records from being falsified, is guilty of an offence. However, if the members have entrusted the duty of keeping the accounting records or maintaining a system of internal control to another "competent and reliable" person, it would be sufficient defence if a case involving falsified records were ever brought to court.

Financial year and annual financial statements

The date of the end of the financial year of a close corporation must be specified in the founding statement. Financial statements must be prepared within a maximum period of nine months after the end of the financial year. Section 58(2)(b) of the Close Corporation Act requires that annual financial statements should fairly represent the state of affairs of the corporation at the end of the relevant financial year and the results of its activities for that year in accordance with Generally Accepted Accounting Practice (GAAP) suited to the business of that corporation. The financial statements should include:

- A balance sheet
- An income statement
- A statement of changes in equity
- A cash flow statement
- Accompanying notes.

The financial statements must disclose the amounts and any changes in the amounts of the following:

- Contributions by members (members' interest)
- Accumulated profits (or losses)
- Revaluations (in any) of non-current assets
- Amounts of loans to members
- Amounts of loans from members.

The accounting officer

Every close corporation must appoint an accounting officer, who is a member of a recognised profession. The professional body must require entrance examinations in accounting and related studies and must have the power to take disciplinary action against members guilty of negligence, in the performance of these duties or of conduct which discredits their professions.

The accounting officer must:

- Determine whether the annual financial statements are in agreement with the accounting records of the corporation
- Determine the accounting policies applied in the preparation of the annual financial statements
- Report to the members of the corporation in respect of the above.

EXAMPLE

The following information relates to Comper CC:

1. Trial balance as 28 February 2006

	Dr	Cr
Members' contributions:		
C Cooper		72 000
P Parsons		65 000
Vehicle at cost	54 000	
Equipment at cost	18 000	
Inventory (merchandise): 28 February 2006	172 080	
Trade accounts receivable	50 184	
Trade creditors		83 304
Loan to P Parsons	12 000	
Investment in Cape Bank	25 000	
Bank	6 956	
Accumulated depreciation on equipment: 28 February 2005		3 600
Sales		1 167 840
Cost of sales	778 560	
Accumulated profits: 28 February 2005		6 420
Rent expense	14 400	
Advertising	4 800	
Salaries and wages	168 020	
Water and electricity	8 640	
Telephone expense	2 160	
Income from investment		1 500
Discount allowed	252	
Bad debts	540	
Administrative expenses	2 868	
Accounting officer's remuneration	4 320	
Provisional tax payments	30 000	
Discount received		396
Interim profit distribution to members	48 000	
Interest income		720
	1 400 780	1 400 780

Additional information:

a) A debtor cannot be traced and his debt of R184 must be written off as irrecoverable. The members decided to create a provision for bad debts at 2% of the outstanding accounts receivable balances.
b) The electricity account for February, R785, was received on 20 March 2006.
c) An insurance premium of R800, payable annually on 1 June, is included in administrative expenses.
d) The loan to P Parsons was made on 1 March 2005 at 12% interest per annum, payable every six months.
e) Included in salaries and wages is an amount of R20 000, paid to C Cooper as remuneration for his special contribution to the management of the enterprise.
f) The investment in Cape Bank was made on 1 May 2005 for 24 months at 12% interest per annum which is receivable every six months on 31 October and 30 April.
g) Provision must still be made for the following:

- Depreciation on the vehicle and equipment at 20% per annum on the diminished balance. The vehicle was acquired on 1 September 2005.
- Income tax for the year amounting to R84 200.
- An additional profit distribution to members of R36 000. (Members share profits equally).

REQUIRED:

1. Prepare the following financial statements in accordance with GAAP:

   a. The income statement of Comper CC for the year ended 28 February 2006.
   b. The statement of changes in equity of Comper CC for the year ended 28 February 2006.
   c. The balance sheet of Comper CC at 28 February 2006.

2. The notes to the financial statements. Your answer must include the required analysis of transactions with members.

SOLUTION

COMPER CC
Income statement for the year ended 28 February 2006

	Note	R	
Revenue	2	1,167,840.00	
Less: Cost of sales		778,560.00	
Gross profit		389,280.00	
Add: Other income:		396.00	
Discount received			396.00
		389,676.00	
Less: Selling, administrative and general expenses		216,049.00	
Rent expense			14,400.00
Advertising			4,800.00
Salaries and wages			148,020.00
Members' remuneration			20,000.00
Water and electricity			9,425.00
Telephone expense			2,160.00
Discount allowed			252.00
Bad debts			1,724.00
Administrative expenses			2,068.00
Insurance			600.00
Accounting officer's remuneration			4,320.00
Depreciation:			8,280.00
Equipment			2,880.00
Vehicles			5,400.00
Profit from operations		173,627.00	
Investment income:		3,940.00	
Interest on loan to member			1,440.00
Interest on investment			2,500.00
Profit before tax		177,567.00	
Income tax expense		-84,200.00	
Net profit for the year		93,367.00	

Statement of changes in equity for the year ended 28 February 2006

	Members' contributions	Retained earnings	Loans from Members	Loans to members	Total
Balance at 28 February 2005	137,000.00	6,420.00			143,420.00
Net profit for the year		93,367.00			93,367.00
Profit distribution		-84,000.00			-84,000.00
Balance at 28 February 2006	137,000.00	15,787.00	-	-	1,512,787.00

COMPER CC
Balance sheet at 28 February 2006

ASSETS	Note	R
Non-current assets	**4**	97,120.00
Property, plant and equipment		60,120.00
Investment: 12% Fixed deposit at Cape Bank		25,000.00
Loan to member		12,000.00
Current assets		229,956.00
Inventories		172,080.00
Trade and other receivables		50,720.00
Prepayments		200.00
Cash and cash equivalents		6,956.00
Total assets		327,076.00
EQUITY AND LIABILITIES		
Members' interest and reserves		152,787.00
Members' contributions		137,000.00
Accumulated profits		15,787.00
Current liabilities		174,289.00
Trade and other payables		84,089.00
Members for profit share		36,000.00
Income tax payable		54,200.00
Total equity and liabilities		327,076.00

Notes to the balance sheet

1. Accounting policy:
   1.1 Basis of presentation. The annual financial statements are prepared on the historical cost basis and comply with Generally Accepted Accounting Practice.
   1.2 Property, plant and equipment: Depreciation has been provided for as follows:
   Equipment: 20% per annum on the diminished balance
   Vehicle: 20% per annum on the cost price
   1.3 Inventories are stated at the lower of cost and net realisable value.

2. Revenue is recognised as net sales to customers.

3. Analysis of transactions with members

	C Cooper	P Parsons	Total
Salary	20 000		20 000
Interest earned		-1 440	-1 440
4	20 000	-1 440	18 560

4. Property, plant and equipment

Property, plant and equipment	Equipment	Vehicle	Total
Carrying amount: Beginning of year	14,400.00		14,400.00
Cost	18,000.00		18,000.00
Accumulated depreciation	-3,600.00		-3,600.00
Additions		54,000.00	54,000.00
Depreciation for the year	-2,880.00	-5,400.00	-8,280.00
Carrying amount: End of the year	11,520.00	48,600.00	60,120.00
Cost	18,000.00	54,000.00	72,000.00
Accumulated depreciation	-6,480.00	-5,400.00	-11,880.00

Comments

Profits that are not distributed to members at the end of the financial year will accumulate over time. Such profits are referred to as accumulated profits and form part of the members' interest. Accumulated losses will be set off as a negative figure against members' interest.

Loans made to or by members of a close corporation do not form part of the members' interest. A loan to a member is treated as a non-current asset except for the portion, which is repayable within the next 12 months and is shown as a current asset. A loan from a member is treated as a non-current liability except for the portion, which is repayable within the next 12 months and is shown as a current liability.

QUESTION B1

The following information relates to Promo CC:

1. Trial balance at 31 December 2004:

	Dr R	Cr R
Land and buildings at cost	95 000	
Furniture and equipment at cost	33 000	
Vehicles at cost	21 000	
Accumulated depreciation:		
Furniture and equipment		6 700
Vehicles		8 400
Inventory: 31 December 2003	54 600	
15% long-term secured by first mortgage bond over land and buildings		50 000
Trade accounts receivable	20 500	
Provision for bad debts: 31 December 2003		955
Cash in bank	24 000	
Trade accounts payable		37 100
Provisional tax paid	6 900	
Sales		321 500
Purchases	224 700	
Import duty on purchases	1 550	
Railage on purchases	2 500	
Repairs and maintenance	1 315	
Assessment rates	710	
Commission on sales	1 500	
Delivery expenses	650	
Discount allowed	1 350	
Salaries and wages	35 615	
Stationery	520	
Bad debts	460	
Loss on sale of non-current assets	220	
Insurance	475	
Water and electricity	2 100	
Dividends received		450
Investment: 10 000 shares in Vicks Limited at cost	11 000	
Loans from members:		
A Adam		10 000
C Charles		8 000
Interest paid	9 660	
Members' contributions:		
A Adam		40 000
B Ben		35 000
C Charles		25 000
Accumulated profits: 31 December 2003		6 220
	549 325	549 325

2. <u>Additional information</u>:

(a) Included in salaries and wages is an amount of R10 000 which was paid to member B Ben as remuneration for his special contribution to the management of the enterprise.
(b) Interest paid includes R2 160, which represents 12% interest, paid to A Adam and C Charles in respect of the loans they made to the close corporation.
(c) Provision for depreciation of R1 650 on furniture and equipment and R2 050 on vehicles must still be made.
(d) The provision for bad debts must be adjusted to 5% of the outstanding trade accounts receivable.
(e) Inventory on hand on 31 December 2004 amounted to R58 300.
(f) Income tax provision for the year amounted to R17 125.
(g) A profit distribution of R20 000 must be made to the members.

Required:

(1) Prepare the income statement of Promo CC for the year ended 31 December 2004.
(2) Prepare the statement of changes in equity of Promo CC for the year ended 31 December 2004.
(3) Prepare the balance sheet of Promo CC at 31 December 2004.
(4) Prepare the notes to the financial statements of Promo CC for the year ended 31 December 2004. Your answer must include the required analysis of transactions with members.

QUESTION B2 (16 marks / 29 minutes)

The following information relates to Oslo Close Corporation:

. Trial balance at 28 February 2004:

	R
Members' contributions	
A Andre	60 000
B Botha	60 000
N Nortje	40 000
Accumulated profits – 28 February 2003	23 300
Loan from A Andre	30 000
Loan to B Botha	20 000
Provision for bad debts – 28 February 2003	780
Land and buildings at cost	100 000
Equipment at cost	72 000
Investment at cost – 34 000 ordinary shares of R1 each	
in USO Ltd (market value, R30 000)	34 000
Inventory – merchandise at cost	67 986
– stationery	2 310
Long-term loan (cr)	24 000
Accumulated depreciation on equipment – 28 February 2003	25 920
Accrued expenses	2 880
Prepaid expenses	1 986
Bank overdraft	10 328
Petty cash	300
Sundry accounts receivable	11 760
Sundry creditors	4 764
Net income for the year before tax	95 370
Provisional tax payments	35 000
Interim profit distributions to members:	
A Andre	12 000
B Botha	12 000
N Nortje	8 000

2. Additional information:

2.1 The provision for bad debts must be adjusted to 5% of outstanding accounts receivable balances.
2.2 The long-term loan from Bousaam Limited is secured by a first mortgage over land and buildings.
2.3 Provision for income tax for the year, R45 000.
2.4 A further profit appropriation of R32 000 must be made to members.

Required:

1. The statement of changes in equity of Oslo Close Corporation for the year ended 28 February 2004.

2. The balance sheet of Oslo Close Corporation at 28 February 2004, in compliance with generally accepted accounting practice.
NB: The calculation of the accumulated profits must be shown separately.

QUESTION B3 (4 marks / 25 minutes)

The following information relates to Link Close Corporation:

1. Balances at 28 February 2004:

	R
Land and buildings at cost	250 000
Vehicle (carrying amount)	15 000
Inventory – 28 February 2004	117 000
Investment at cost	20 000
Accounts Receivable	95 500
Accounts Payable	103 250
Members' contributions: L Lock	120 000
G Good	120 000
Long-term loan (Cr)	70 000
Loan from G Good at 15% p.a.	20 000
Bank overdraft	1 725
General reserve	10 000
Accrued expenses	625
Receiver of Revenue (provisional tax paid)	20 000
Members for profit share (interim profit distribution)	
L Lock	5 000
G Good	5 000
Profit and loss account (net income for the year before tax interest)	81 900

2. Additional information:

2.1 The corporation was incorporated on 1 March 2003.
2.2 The vehicle was acquired on 1 March 2003 and depreciation was provided for at 25% per annum on cost.
2.3 The investment consists of 10 000 shares in ABBA Limited with a market value of R22 250.
2.4 The long term loan from Selected Bank is secured by a first mortgage over land and buildings. The first repayment of R5 000 is due on 1 September 2004.
2.5 The loan from G Good was negotiated at 1 December 2003. No provision has yet been made for the interest.
2.6 The general reserve must be increased annually by R5 000.
2.7 Income tax payable for the year amounted to R34 150.

Required:

1. The statement of changes in equity of Link Close Corporation for the year ended 28 February 2004.
2. The balance sheet of Link Close Corporation at 28 February 2004 in accordance with generally accepted accounting practice.

NB: Show all calculations.

QUESTION B4 (16 marks / 29 minutes)

The following information relates to Wise Close Corporation:

	R	R
Sales		280 700
Inventory – 1 March 2003	20 300	
Purchases	182 000	
Interest received		1 600
Advertising	4 100	
Leasing charges	8 200	
Rent (paid to M Moore)	5 800	
Salaries and wages	6 000	
Commission	4 100	
Salaries of members: A Amber	18 000	
M Moore	18 000	
Bad debts	1 500	
Travelling expenses	4 200	
Accounting officer's remuneration	3 000	
Insurance	2 000	
Cash in bank	3 000	
Interest on loan from A Amber	1 500	
Members' contributions: A Amber		30 000
M Moore		20 000
Loan from A Amber		15 000
Vehicles at cost	30 000	
Equipment at cost	10 000	
Accounts receivable	22 800	
Investment at cost	13 000	
Accounts payable		10 200
	357 500	357 500

2. Additional information:

2.1 The close corporation was incorporated on 1 March 1993.
2.2 Inventory o hand at 28 February 1994 amounted to R21 800.
2.3 The following must still be provided for:
2.3.1 Depreciation on fixed assets as follows:
Vehicles R 1 000
Equipment R 800
2.3.2 S A Normal tax for the year, R10 100.
2.3.3 A Profit distribution to members as follows:
A Amber (60%) R 5 400
M Moore (40%) R 3 600
R 9 000

Required:

1. The income statement of Wise Close Corporation for the year ended 28 February 2004 in accordance with generally accepted accounting practice
2. The statement changes in equity of Wise Close Corporation for the year ended 28 February 2004.
3. .The statement of transactions with members.

QUESTION B5 (8 marks / 32 minutes)

The following information relates to Axis Close Corporation:

1. Balances at 31 December 2994:

	R
Furniture and equipment	90 300
Vehicles at cost	72 500
Accumulated depreciation – 31 December 2003:	
Furniture and equipment	16 800
Vehicles	25 200
Inventory – 1 January 2003	149 730
15% Long term loan, obtained at 1 March 2003	126 000
10% Loan from member R Rolo – obtained at 1 June 2002	63 000
Accounts Receivable	64 000
Provision for bad debts – 31 December 2003	2 520
Provisional tax paid	19 320
Sales	903 000
Purchases	672 000
Railage on purchases	11 466
Repairs and maintenance	4 410
Water and electricity	8 620
Delivery expenses on sales	7 476
Discount allowed	3 738
Salaries and wages	87 150
Stationery	1 575
Bad debts	1 512
Loss on sale of fixed assets	630
Insurance	1 113
Investment at cost : 31 500 shares in Pep Ltd	42 000
Interest paid	15 750
Accumulated profits 31 December 2003	19 530
Members for profit share (Distribution to members)	44 100
Members' contributions	160 000
Rent paid (premises)	17 660

2. Additional information

2.1 Interest paid includes R6 300 interest for the year paid to member R Polo in respect of the loan obtained from him.

2.2 Included in salaries and wages is an amount of R3 500 which was paid to member A Assum as remuneration for his special contribution to the management of the corporation.

2.3 A debt of R420 must still be written off, as bad and the provision for bad debts must be adjusted to 5% of the outstanding accounts receivable balances.

2.4 Provide for depreciation as follows:

- 2.4.1 Furniture and equipment at 10% on the diminished balance
- 2.4.2 Vehicles at 20% on cost

2.5 Stock at 31 December 2004 amounted to R186 900.

2.6 Income tax payable for the year amounted to R32 641.

2.7 Pep Limited declared a dividend of 10c per share on 15 December 2004, payable on 15 January 2003.

Required:

The income statement of Axis Close Corporation for the year ended 31 December 2004 in accordance with generally accepted accounting practice.

QUESTION B6 (34 marks / 41 minutes)

The following information relates to Game CC.

1. Balances at 30 September 2004

	R
Members' contributions R Reid	60 000
G Gomes	40 000
Land and buildings at cost	682 000
Equipment at cost – 1 October 2003	270 000
Accumulated profits – 1 October 2003	245 045
20% Long-term (Secured by a mortgage over land and buildings. Capital amount repayable on 1 November 2004 R10 000)	90 000
Loan from member – R Reid (Unsecured, at 10% interest per annum)	93 800
Loan to member – G Gomes	70 500
Bank (Dr)	50 000
Inventory	109 752
Accounts Receivable	500 600
Provision for bad debts – 1 October 2003	25 030
Accounts Payable	368 700
Accumulated depreciation on equipment – 1 October 2003	97 200
Prepaid expenses	11 000
Interim profit distribution paid to members: R Reid	30 000
G Gomes	15 000
Net profit for the year (before any of the additional information has been accounted for)	719 077

2. <u>Additional information with regard to transactions not yet taken into account</u>

2.1 An additional amount of R3 000 must be written off as bad debts. The provision for bad debts account must be adjusted to 5% of the outstanding accounts receivable.

2.2 Maintenance expenses in respect of land and buildings to the value of R10 800 were debited to the land and buildings at cost account

2.3 Equipment to the value of R15 000 was purchased on credit at 1 August 2000. This transaction must still be taken into account. No further purchases or disposals in respect of property, plant and equipment were made during the year.

2.4 Depreciation on equipment must be calculated at 20% per annum according to the straight-line method. The estimated scrap values of the equipment are:

- On the balance of R270 000, R8 000
- On the equipment purchased on 1 August 2004, R450.

2.5 A further profit distribution must be made to G Gomes, R5 000

2.6 On 30 September 2004 an investment was made in Glad Ltd. 25 000 Ordinary shares with a par value of R2 each were purchased for R25 000, cash. On 30 September 2004 the market value of the shares was R25 000. This transaction must still be taken into account.

Required:

(a) Calculate the accumulated profits of Game CC for the year ended 30 September 2004.

(b) The statement of changes in equity for the year ended 30 September 2004 of Game CC.

(c) Prepare the balance sheet of Game CC at 30 September 2004 according to generally accepted accounting practice. Notes with regard to the property, plant and equipment, investment and the non-current liabilities must be shown.

QUESTION B7 (19 marks / 35 minutes)

The following information relates to Natal Close Corporation:

1. Balances at 30 April 2004:

	R
Members' contributions	143 000
Furniture and equipment at cost	149 000
Vehicles at cost	155 000
Accumulated depreciation – 30 April 2003:	
Furniture and equipment	24 000
Vehicles	36 000
Investment at cost – 45 000 shares in Long Limited	60 000
Inventory – 1 May 2003	218 900
Accumulated profits – 30 April 2003	35 700
Receiver of Revenue – provisional tax paid	27 600
Accounts Receivable	73 500
Accounts Payable	80 000
Provision for bad debts – 30 April 2003	1 440
12% loan from member Z Zita, acquired on 1 November 2003	90 000
17% long-term loan, acquired on 1 May 2003	180 000
Bank (dr)	10 400
Sales	1 290 000
Purchases	970 000
Import duty on purchases	6 180
Railage on purchases	10 200
Repairs and maintenance	6 300
Water and electricity	2 700
Commission on sales	7 800
Delivery expenses on sales	5 880
Discount allowed	5 340
Salaries and wages	94 500
Stationery	2 250
Loss on sale of fixed assets	5 900
Insurance	6 590
Rent paid	39 600
Interest paid	22 500

2. Additional information:

2.1 Inventory on 30 April 2004 amounted to R267 000.
2.2 Included in salaries and wages is an amount of R45 000 which was paid to member T Tiger as remuneration for his special contribution to the management of the enterprise.
2.3 A debt of R500 must still be written off and the provision for bad debts must be adjusted to 5% of the outstanding accounts receivable balances. (Ignore VAT)
2.4 Long Limited declared a dividend on 30 April of 10 cents per share, which is payable on 15 May 2004.

2.5 Provision must be made for the following:
 2.5.1 Depreciation on furniture and equipment at 15% p.a. on the diminished balance.
 2.5.2 Depreciation on vehicles at 20% p.a. on cost.
 2.5.3 SA Normal tax for the year, R42 700.
 2.5.4 Distributions to members, R22 000.

Required:

The income statement of Natal Close Corporation for the year ended 30 April 2004 in accordance with generally accepted accounting practice.

QUESTION B8 (19 marks / 34 minutes)

The following information relates to Garden Close Corporation:

1. Trial balance at 28 February 2004:

	R	R
Members' contribution – S Smith		224 000
– P Pool		196 000
Loan to member – P Pool	119 000	
Loan from member – S Smith		406 000
Undrawn earnings – 29 February 2003		91 000
Net profit before taxation		1 176 000
Distribution to members	140 000	
Land and buildings at cost	1 141 000	
Motor vehicles at cost	518 000	
Plant and machinery at cost	491 000	
Accumulated depreciation:		
Motor vehicles		189 000
Plant and machinery		217 000
Long-term loans		434 000
Inventory – 28 February 2004	105 000	
Bank	112 000	
Accounts Receivable	49 000	
Accounts Payable		126 000
Receiver of Revenue	440 000	
Accrued expenses		56 000
	3 115 000	3 115 000

2. <u>Additional information</u>:

   2.1 Interest of R59 500 payable on the loan from S Smith and interest of R16 500 receivable on the loan to P Pool was capitalised and credited and debited to the respective loan accounts.
   2.2 During the year Smith and Pool drew salaries of R168 000 and R84 000 respectively.
   2.3 Provision must be made for the following:
   - 2.3.1 Undrawn salaries
     Smith – R84 000
     Pool – R42 000
   - 2.3.2 A further profit distribution:
     Smith – R22 400
     Pool – R19 600
   - 2.3.3 SA Normal tax – R450 000

   2.4 The long-term loans were secured by a mortgage over land and buildings.

Required:

1. Draft the balance sheet of Garden Close Corporation at 28 February 2004, in terms of the requirements of the Close Corporations Act, 1984. (14)

2. Show the analysis of transactions with members. (5)

NB: The calculation of the accumulated profits must be shown separately.

QUESTION B9

The following information relates to Cross CC:

1. Trial balance at 28 February 2004:

	Dr R	Cr R
Members' contributions:		
L Lander		72 000
G Govender		65 000
Vehicles at cost	54 000	
Equipment at cost	18 000	
Inventories: 28 February 2004	172 080	
Accounts Receivable	50 184	
Creditor		83 304
Loan to G Govender	12 000	
Investment in ABC Bank	25 000	
Bank	6 956	
Accumulated depreciation on equipment		3 600
Sales		1 167 840
Cost of sales	778 560	
Accumulated profits: 28 February 2004		6 420
Rent paid	14 400	
Advertising	4 800	
Salaries and wages	168 020	
Water and electricity	8 640	
Telephone	2 160	
Income from investment		1 500
Discount allowed	252	
Bad debts	540	
Administrative expenses	2 868	
Accounting officer's remuneration	4 320	
Provisional tax payments	30 000	
Discount received		396
Interim profit distribution to members	48 000	
Interest received		720
	1 400 780	1 400 780

(a) A debtor cannot be traced and his debt of R184 must be written off as irrecoverable. The members decided to create a provision for bad debts at 2% of the outstanding accounts receivable balances.

(b) The electricity account for February, R785, was received on 20 March 2004.

(c) An insurance premium of R800, payable annually on 1 June, is included in administrative expenses.

(d) The loan to G Govender was granted on 1 March 2003 at 12% per annum, payable every six months.

(e) Included in salaries and wages is an amount of R20 000, paid to L Lander as remuneration for his special

(f) The investment in ABC Bank was made on 1 May 2003 for 24 months at 12% interest per annum which is receivable every six months on 31 October and 30 April.

(g) Provision must still be made for the following:
- Depreciation on the vehicle and equipment at 20% per annum on the diminished balance. The vehicle was acquired on 1 September 2003.
- Income tax for the year amounting to R84 200.
- An additional profit distribution to members of R36 000
(Members share profits equally)

Required:

(1) Prepare the income statement of Cross CC for the year ended 28 February 2004 in accordance with GAAP.

(2) Prepare the statement of changes in equity of Cross CC for the year ended 28 February 2004.

(3) Prepare the balance sheet of Cross CC at 28 February 2004.

(4) Prepare the notes to the financial statements. Your answer must include the required analysis of transactions with members.

QUESTION B10 (38 marks / 46 minutes)

The following information relates to Bloom Close Corporation:

1. Balances at 31 December 2004:

	R
Furniture and equipment at cost	60 200
Vehicles at cost	49 000
Accumulated depreciation	
Furniture and equipment – 1 April 2004	11 200
Vehicles – 31 December 2003	16 800
Inventory = 1 January 2004	99 820
15% Long-term loan (Cr)	84 000
10% Loan from member B Brown	42 000
Trade accounts receivable	42 400
Provision for bad debts – 31 December 2003	1 680
Provisional tax payments	12 880
Sales	602 000
Purchases	448 000
Railage on purchases	7 644
Repairs and maintenance	2 940
Water and electricity	5 747
Delivery expenses on sales	4 984
Discount allowed	2 492
Salaries and wages	58 100
Stationery consumed	1 050
Bad debts	1 008
Loss on sale of furniture and equipment	420
Insurance	742
Investment – 21 000 shares in Gold Limited at cost	28 000
Interest paid	10 500
Accumulated profit – 31 December 2003	13 020
Distribution to members	29 400
Depreciation	300

2. Additional information:

2.1 Included in salaries and wages is an amount of R21 000 which was paid to member R Rowan as remuneration for his special contribution to the management of the enterprise.

2.2 Interest paid includes R4 200 interest for the year to member B Brown in respect of a loan he made to the close corporation. The 15% long-term loan was obtained at 1 December 2003.

2.3 Provide for depreciation as follows:

2.3.1 Furniture and equipment – 10% on the diminished balance.

2.3.2 Vehicles – 20% on cost price

2.4 A debt of R280 must still be written off, as bad and the provision for bad debts must be adjusted to 5% of the outstanding accounts receivable' balances.

2.5 Inventory on 31 December 2004 amounted to R124 600.

2.6 The income tax for the year amounted to R30 800.

2.7 Gold Limited declared a dividend of 10c per share on 15 December 2004, payable on 15 January 2005.

Required:

2.1 The income statement of Bloom Close Corporation for the year ended 31 December 2004 in accordance with generally accepted accounting practice. Show all calculations clearly. Notes to the income statement need NOT to be shown.

2.2 Draw up the accumulated profits column of the statement of changes in equity of the CC for the year ended 31 December 2004.

QUESTION B11 (46 marks / 55 minutes)

The following information relates to Apple Close Corporation:

1. Balances at 29 February 2004:

	R
Members' contributions:	
A Adler	140 000
P Peters	140 000
O Oban	70 000
Accumulated profit – 28 February 2003	56 600
General Reserve	82 000
Loan from A Adler	70 000
Interim profit distribution to members:	
A Adler	32 000
P Peters	32 000
O Oban	16 000
Loan to P Peters	50 000
Provision for bad debts	3 000
Land and buildings at cost	210 000
Equipment at cost	165 000
Investment – 50 000 ordinary shares of R1 each in UFO Limited at cost	130 000
Inventories – merchandise	140 500
– consumer goods	6 200
Long-term loan – AUS Bank	60 000
Bills receivable	20 150
Bills payable	15 360
Accumulated depreciation on equipment	62 320
Accrued expenses	6 800
Prepaid expenses	3 500
Ban overdraft	25 120
Petty cash	700
Trade accounts receivable	50 290
Trade creditors	16 180
Profit before taxation	179 380
Provisional tax payments	70 420

2. Additional information:

2.1 The depreciation on equipment for the year amounted to R41 250.
2.2 There were no disposals of, or additions to the land and buildings and equipment during the year.
2.3 The market value of the shares in UFO Limited is R3.
2.4 The loan from A Adler is unsecured and an amount of R15 000 must be repaid during the next financial year.
2.5 The income tax for the year is estimated at R50 000.
2.6 A further profit distribution of R40 000 must be made to the members.
2.7 The long-term loan from AUS Bank is secured by a first mortgage over land and buildings.

Required:

(a) Draw up the balance sheet of Apple Close Corporation at 29 February 2004 according to generally accepted accounting practice.
(b) Draw up the statement of changes in equity of Apple Close Corporation for the year ended 29 February 2004.