

FAC1601

**FINANCIAL
ACCOUNTING REPORTING**

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FAC1601

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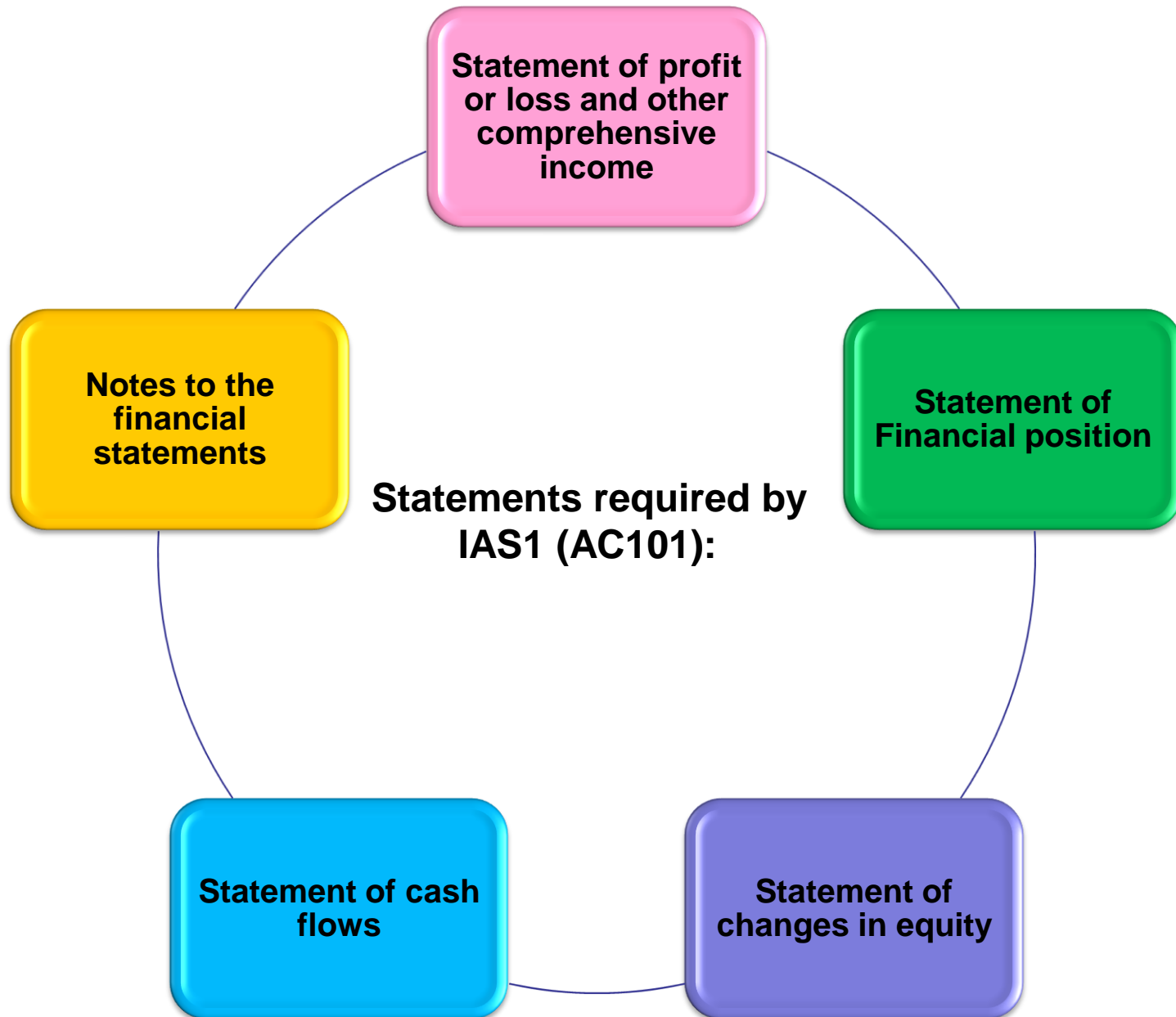
Mr J van Staden

STUDY UNIT 1

INTRODUCTION TO THE PREPARATION OF FINANCIAL STATEMENTS



A: TYPES OF FINANCIAL STATEMENTS AND NOTES



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 profit or loss and other 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: FINANCIAL INSTRUMENTS

According to IAS 32.11, a financial instrument is any contract that gives rise to a **financial asset** for one entity and a **financial liability or equity** for another entity.

Categories of financial instruments:

- **Financial asset held for trading at fair value through profit or loss:**

Example: - Shares held for speculative purposes (Listed investments)

- This is disclosed as “Other financial assets” under the Current Asset section of the SOFP.

- Movements will be reflected in SOP or L&OCI as “Other income”

- **Financial asset at fair value through other comprehensive income:**

Example: - Investment in equity instruments (Unlisted investments)

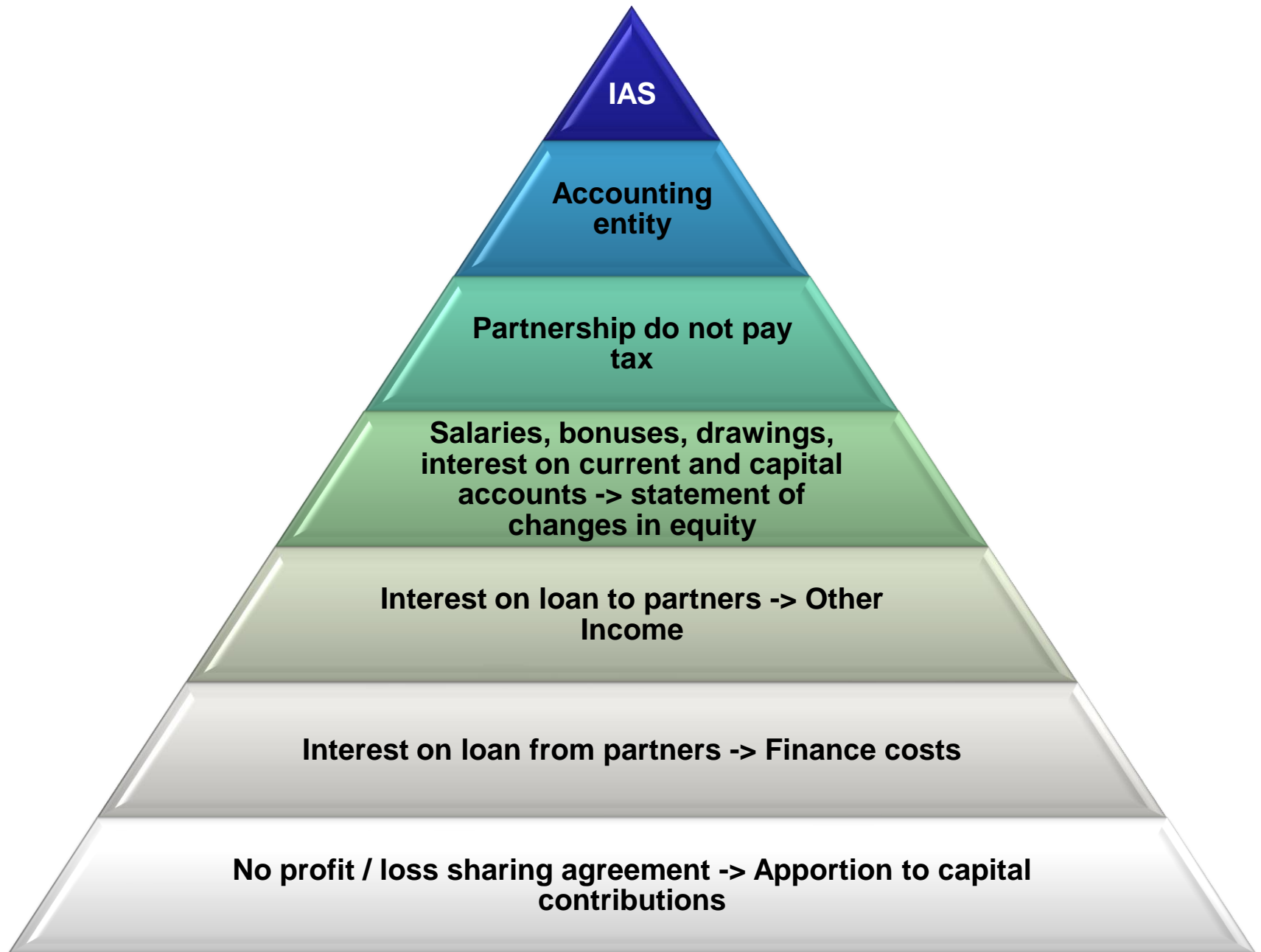
- This is disclosed as “Financial assets” under the Non -Current Asset section of the SOFP.

STUDY UNIT 2

ESTABLISHMENT AND FINANCIAL STATEMENTS OF A PARTNERSHIP



A: FINANCIAL STATEMENTS OF PARTNERSHIPS



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 profit & loss and other comprehensive income as part of **“OTHER INCOME”**.

Interest on loans from partners must be disclosed in the statement of statement of profit & loss and other comprehensive income as part of **“FINANCE COSTS”**.

If there is no agreement on how profits/losses are shared, profits/losses is apportioned to partners according to their capital contributions.

B: FRAMEWORK OF THE STATEMENT OF PROFIT & LOSS & OTHER COMPREHENSIVE INCOME

ABC TRADERS

STATEMENT OF PROFIT OR LOSS AND OTHER 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:

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	R668 800
Cost of sales	R236 100
Settlement discount granted	R 23 100
Allowance for settlement discount granted	R 15 000

Required:

Prepare the trading section in the Statement of profit or loss and other comprehensive income of Paul&Shark Traders for the year ended 31 December 20.8.

PAUL&SHARK TRADERS STATEMENT OF PROFIT OR LOSS & OCI FOR THE YEAR ENDED 31 DECEMBER 20.8

	R
Revenue	
Cost of sales	
Gross profit	

Example 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	R668 800
Cost of sales	R236 100
Settlement discount granted	R 23 100
Allowance for settlement discount granted	R 15 000

Required:

Prepare the trading section in the Statement of profit or loss and other comprehensive income of Paul&Shark Traders for the year ended 31 December 20.8.

PAUL&SHARK TRADERS STATEMENT OF PROFIT OR LOSS & OCI FOR THE YEAR ENDED 31 DECEMBER 20.8

	R
Revenue R(668 800 – 23 100)	645 700
Cost of sales	
Gross profit	

Example 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	R668 800
Cost of sales	R236 100
Settlement discount granted	R 23 100
Allowance for settlement discount granted	R 15 000

Required:

Prepare the trading section in the Statement of profit or loss and other comprehensive income of Paul&Shark Traders for the year ended 31 December 20.8.

PAUL&SHARK TRADERS STATEMENT OF PROFIT OR LOSS & OCI FOR THE YEAR ENDED 31 DECEMBER 20.8

	R
Revenue R(668 800 – 23 100)	645 700
Cost of sales	(236 100)
Gross profit	

Example 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	R668 800
Cost of sales	R236 100
Settlement discount granted	R 23 100
Allowance for settlement discount granted	R 15 000

Required:

Prepare the **trading section** in the statement of profit or loss and other comprehensive income of Paul&Shark Traders for the year ended 31 Dec 20.8.

PAUL&SHARK TRADERS
STATEMENT OF PROFIT OR LOSS & OCI FOR THE YEAR ENDED
31 DECEMBER 20.8

	R
Revenue R(668 800 – 23 100)	645 700
Cost of sales	(236 100)
Gross profit	409 600

Example 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:

Investments at cost	R100 000
Rental income	R 22 000

Additional information:

Investments consist of 12 000 shares purchased in Puma Ltd for R70 000 and 5 000 share in Zoo (Pty) Ltd purchased for R30 000. The market value of share in Puma Ltd was determined as R77 500. Shares in Puma Ltd were purchased for trade purposes.

Required:

Calculate the amount to be disclosed as **other income** in the statement of profit or loss and other comprehensive income at the end of the financial year.

PAUL&SHARK TRADERS

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 20.8 (extract)

	R
Gross profit	409 600
Other income	29 500
Gain on financial asset at fair value through profit or loss:	
Held for trading: Listed investment R(77 500 – 70 000)	7 500
Rental income	22 000

Example 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	R214 900
Drawings	R 10 500

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 profit or loss & OCI for the year ended 31 December 20.8.

PAUL&SHARK TRADERS STATEMENT OF PROFIT OR LOSS & OCI FOR THE YEAR ENDED 31 DECEMBER 20.8

	R
Distribution, administrative and other expenses	
Salaries and wages	

Example 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	R214 900
Drawings	R 10 500

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 profit or loss & OCI for the year ended 31 December 20.8.

PAUL&SHARK TRADERS STATEMENT OF PROFIT OR LOSS & OCI FOR THE YEAR ENDED 31 DECEMBER 20.8

	R
Distribution, administrative and other expenses	
Salaries and wages (R214 900 – 80 000)	134 900

Example 4:

The following information pertains to Paul&Shark Traders at 31 December 20.8, the end of the financial year:

Debtors control	R20 000
Allowance for credit losses	R 1 000

Additional information:

On 1 December 20.8, 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 December 20.8 the business received 20% of the amount owed the debtor from his estate. An incompetent accountant of Paul&Shark 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, Paul&Shark Traders decided to adjust the balance of the allowance for credit losses account to R1 500.

Calculate the amount to be disclosed as credit losses in the statement of profit or loss & other comprehensive income for the year ended 31 December 20.8.

Calculation

DEBTOR TO BE WRITTEN OFF

• Debtor balance	R 5 000
• Received from debtor (20% x R5 000)	<u>(R 1 000)</u>
• Amount to be written off as credit loss	<u>R 4 000</u>

Dr Credit Losses R4 000

Cr Debtor R4 000

ALLOWANCE FOR CREDIT LOSSES

• Opening Balance	R 1 000
• Required (Closing balance)	<u>R 1 500</u>
• Adjustment required	<u>R 500</u>

Dr Credit Losses R500

Cr Allowance for Credit losses R500

TOTAL CREDIT LOSS **R 4 500**

PAUL&SHARK TRADERS
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME FOR THE YEAR ENDED 31 DECEMBER 20.8

	R
Revenue	645 700
Cost of sales	(236 100)
Gross profit	409 600
Other income	29 500
Gain on financial asset at fair value through profit or loss:	
Held for trading: Listed investment	7 500
Rental income	22 000
Distribution, administrative and other expenses	
Salaries and wages	134 900
Credit losses R(4 000 + 500)	4 500

Example 5:

The following balances appeared in the accounting records of Paul&Shark Traders at 31 December 20.8, the end of the financial year:

Land and buildings	R800 000
Vehicle at cost	R168 000
Equipment at cost	R 48 000
Accumulated depreciation: Vehicle (1 January 20.8)	R 27 900
Accumulated depreciation: Equipment (1 January 20.8)	R 15 500
Depreciation – 31 October 20.8	R 1 500

Additional information:

- On 30 June 20.8, the business purchased a new vehicle at cost of R68 000.
- On 31 October 20.8, equipment with a cost price of R15 000 was sold for R1 000. At that date the accumulated depreciation thereon was R9 000. All the transactions relating to the sale were recorded correctly.
- 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.

Record the above information in the accounting records of Paul&Shark Traders.

STEP 1: Break the info into relevant parts

LAND AND BUILDINGS

- No depreciation

VEHICLES - Depreciation

- Cost Balance 31 Dec 20.8 R168 000
- Acc Depr Balance 1 Jan 20.8 R 27 900
- Assets purchased 30 June 20.8 R 68 000
- Method: Straight line at 20%

EQUIPMENT – Depreciation and Loss on sale of Equipment

- Cost Balance 31 Dec 20.8 R 48 000
- Acc Depr Balance 1 Jan 20.8 R 15 500
- Assets sold 31 Oct 20.8
 - Cost R 15 000
 - Acc Depreciation R 9 000
 - Depreciation recognised on 31 Oct 20.8 R 1 500
- Method: Diminishing balance at 20%

STEP 2: Calculate vehicles' depreciation

OLD VEHICLES

- Cost Balance 31 Dec 20.8 R168 000
- Less : Assets purchased 30 June 20.8 (R 68 000)
- Opening balance R100 000
- x 20%
- **Depreciation on “old vehicles”** **R 20 000**

NEW VEHICLE

- Assets purchased 30 June 20.8 R 68 000
- x 20%
- x 6 / 12
- **Depreciation on “new vehicle”** **R 6 800**

DEPRECIATION ON VEHICLES

R 26 800

STEP 3: Calculate equipments' depreciation

Cost Value

- Cost Balance 31 Dec 20.8 R 48 000

Accumulated Depreciation

- Balance at 1 Jan 20.8 R 15 500
- Depreciation on sold equip for 20.8 R 1 500
- Depreciation on sold equip to asset realisation account (R 9 000)
- Closing balance R 8 000

DEPRECIATION ON EQUIPMENT

Current equipment $(48\ 000 - 8\ 000) \times 25\%$ R 10 000

Equipment sold (given) R 1 500

Total depreciation on equipment **R 11 500**

PAUL&SHARK TRADERS
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME FOR THE YEAR ENDED 31 DECEMBER 20.8 (extract)

	R
Revenue	645 700
Cost of sales	(236 100)
Gross profit	409 600
Other income	29 500
Gain on financial asset at fair value through profit or loss:	
Held for trading: Listed investment	7 500
Rental income	22 000
Distribution, administrative and other expenses	
Salaries and wages	134 900
Credit losses	4 500
Loss on sale of equipment R(15 000 – 9 000 – 1 000)	5 000
Depreciation R(26 800 + 11 500)	38 300

PAUL&SHARK TRADERS
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME FOR THE YEAR ENDED 31 DECEMBER 20.8 (extract)

	R
Revenue	645 700
Cost of sales	(236 100)
Gross profit	409 600
Other income	29 500
Gain on financial asset at fair value through profit or loss:	
Held for trading: Listed investment	7 500
Rental income	22 000
Distribution, administrative and other expenses	(182 700)
Salaries and wages	134 900
Credit losses	4 500
Loss on sale of equipment	5 000
Depreciation	38 300

Example 6:

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	R 15 000

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	
Interest on long-term loan	
Interest on bank overdraft	

Example 6:

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	R 15 000

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 profit or loss and other comprehensive income for the year ended 31 December 20.8.

PAUL&SHARK TRADERS STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 20.8

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

Example 6:

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	R 15 000

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 profit or loss and other comprehensive income for the year ended 31 December 20.8.

PAUL&SHARK TRADERS STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 20.8

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

Example 6:

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	R 15 000

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 profit or loss and other comprehensive income for the year ended 31 December 20.8.

PAUL&SHARK TRADERS STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 20.8

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

PAUL&SHARK TRADERS**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME FOR THE YEAR ENDED 31 DECEMBER 20.8**

	R
Revenue	645 700
Cost of sales	(236 100)
Gross profit	409 600
Other income	29 500
Gain on financial asset at fair value through profit or loss: Held for trading: Listed investment	7 500
Rental income	22 000
Distribution, administrative and other expenses	(182 700)
Salaries and wages	134 900
Credit losses	4 500
Loss on sale of equipment	5 000
Depreciation	36 800
Finance costs	(24 375)
Interest on long-term loan	9 375
Interest on bank overdraft	15 000
Profit for the year	232 025
Other comprehensive income for the year	-
Total comprehensive income for the year	232 025

Example 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:

Capital: Paul	R 62 500
Capital: Shark	R 75 000
Current account: Paul (Dr) (1 January 20.8)	R 2 500
Current account: Shark (Cr) (1 January 20.8)	R 6 000
Total comprehensive income for the year	R232 025

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		Appropriation	Total equity
Paul	Shark	Paul	Shark		
R	R	R	R	R	R

Example 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:

Capital: Paul	R 62 500
Capital: Shark	R 75 000
Current account: Paul (Dr) (1 January 20.8)	R 2 500
Current account: Shark (Cr) (1 January 20.8)	R 6 000
Total comprehensive income for the year	R232 025

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		Appropriation	Total equity
	Paul	Shark	Paul	Shark		
	R	R	R	R	R	R
1 January 20.8	62 500	75 000	(2 500)	6 000	-	141 000

Example 8:

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	R232 025
Salaries and wages	R214 900

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		Appropriation	Total equity
	Paul	Shark	Paul	Shark		
	R	R	R	R	R	R
Total comprehensive income for the year						

Example 8:

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	R232 025
Salaries and wages	R214 900

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		Appropriation	Total equity
	Paul	Shark	Paul	Shark		
	R	R	R	R	R	R
Total comprehensive income for the year					232 025	232 025

Example 8:

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	R232 025
Salaries and wages	R214 900

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		Appropriation	Total equity
	Paul	Shark	Paul	Shark		
	R	R	R	R	R	R
Total comprehensive income for the year					232 025	232 025
Salaries to partners (R5 000 x 12)			60 000	60 000	(120 000)	

Example 9:

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

Drawings: Paul	R 4 500
Drawings: Shark	R 6 000
Salaries and wages	R214 900

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		Appropriation	Total equity
	Paul	Shark	Paul	Shark		
	R	R	R	R		
Total comprehensive income for the year					232 025	232 025
Salaries to partners			60 000	60 000	(120 000)	
Drawings <i>(4500+ 40 000)/(6000+ 40 000)</i>			(44 500)	(46 000)		(90 500)

Example 10:

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)	R 2 500
Current account: Shark (Cr) (1 January 20.8)	R 6 000

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		Appropriation	Total equity
	Paul	Shark	Paul	Shark		
	R	R	R	R	R	R
Interest on capital						

Example 10:

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)	R 2 500
Current account: Shark (Cr) (1 January 20.8)	R 6 000

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		Appropriation	Total equity
	Paul	Shark	Paul	Shark		
	R	R	R	R	R	R
Interest on capital $62\,500 \times 10\% / 75\,000 \times 10\%$			6 250	7 500	(13 750)	

Example 10:

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)	R 2 500
Current account: Shark (Cr) (1 January 20.8)	R 6 000

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		Appropriation	Total equity
	Paul	Shark	Paul	Shark		
	R	R	R	R		
Interest on capital			6 250	7 500	(13 750)	
Interest on current accounts			(125)	300	(175)	

(R2 500) x 5% / R6 000 x 5%

APPROPRIATION ACCOUNT

TOTAL COMPREHENSIVE INCOME

+/- TRANSACTIONS WITH
PARTNERS

MINUS
TRANSFERS TO
RESERVES

APPORTION
BETWEEN
PARTNERS

Example 11:

Assuming that Paul and 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		Appropriation	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
Total comprehensive income for the year					232 025	232 025
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			58 860	39 240	(98 100)	
Balances at 31 December 20.8	62 500	75 000	77 985	67 040	-	282 525

ABC TRADERS**STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 20.9**

	R
ASSETS	
Non-current assets	0000
Property, plant and equipment	0000
Financial assets	0000
Current assets	
Prepayments	0000
Other financial assets	0000
Total assets	0000
EQUITY AND LIABILITIES	
Total equity	0000
Capital	0000
Current accounts	0000
Other components of equity	0000
Total liabilities	0000
Non-current liabilities	0000
Long-term borrowings	0000
Current liabilities	0000
Trade and other payables	0000
Current portion of long-term borrowings	0000
Other financial liabilities	0000
Total equity and liabilities	0000

Example 12:

The following balances appeared in the accounting records of Paul&Shark Traders at 31 December 20.8, the end of the financial year:

Land and buildings	R800 000
Vehicle at cost	R168 000
Equipment at cost	R 48 000
Accumulated depreciation: Vehicle (1 January 20.8)	R 27 900
Accumulated depreciation: Equipment (1 January 20.8)	R 15 500
Depreciation – 31 October 20.8	R 1 500

Additional information:

- On 30 June 20.8, the business purchased a new vehicle at cost of R68 000.
- On 31 October 20.8, equipment with a cost price of R15 000 was sold for R1 000. At that date the accumulated depreciation thereon was R9 000. All the transactions relating to the sale were recorded correctly.
- 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.

Prepare an extract of statement of financial position of Paul&Shark at 31 Dec 20.8 .

PRESENTATION OF NOTES

PAUL&SHARK TRADERS NOTES FOR THE YEAR ENDED 31 DECEMBER 20.8

1. Property, plant and equipment

	Land & buildings	Vehicles	Equip-ment	Total
	R	R	R	R
Carrying amount at 1 Jan 20.8	800 000	72 100	47 500	919 600
Cost	800 000	100 000	63 000	963 000
Accumulated depreciation	-	(27 900)	(15 500)	(43 400)
Additions <i>(at cost)</i>	-	68 000	-	68 000
Disposals <i>(at book value)</i>	-	-	(6 000)	(6 000)
Depreciation for the year	-	(26 800)	(11 500)	(38 300)
Carrying amount at 31 Dec 20.8	800 000	113 300	30 000	943 300
Cost	800 000	168 000	48 000	1 016 000
Accumulated depreciation	-	(54 700)	(18 000)	(72 700)

STEP 1: Break the info into relevant parts

LAND AND BUILDINGS

- No depreciation

VEHICLES - Depreciation

- Cost Balance 31 Dec 20.8 R168 000
- Acc Depr Balance 1 Jan 20.8 R 27 900
- Assets purchased 30 June 20.8 R 68 000
- Method: Straight line at 20%

EQUIPMENT – Depreciation and Loss on sale of Equipment

- Cost Balance 31 Dec 20.8 R 48 000
- Acc Depr Balance 1 Jan 20.8 R 15 500
- Assets sold 31 Oct 20.8
 - Cost R 15 000
 - Acc Depreciation R 9 000
 - Depreciation recognised on 31 Oct 20.8 R 1 500
- Method: Diminishing balance at 20%

STEP 2: Calculate vehicles' depreciation

OLD VEHICLES

- Cost Balance 31 Dec 20.8 R168 000
- Less : Assets purchased 30 June 20.8 (R 68 000)
- Opening balance R100 000
- x 20%
- **Depreciation on “old vehicles”** **R 20 000**

NEW VEHICLE

- Assets purchased 30 June 20.8 R 68 000
- x 20%
- x 6 / 12
- **Depreciation on “new vehicle”** **R 6 800**

DEPRECIATION ON VEHICLES **R 26 800**

Accumulated Depreciation 31 Dec 08 (27 900 + 26 800) **R 54 700**

PRESENTATION OF NOTES

PAUL&SHARK TRADERS NOTES FOR THE YEAR ENDED 31 DECEMBER 20.8

1. Property, plant and equipment

	Land & buildings	Vehicles	Equip-ment	Total
	R	R	R	R
Carrying amount at 1 Jan 20.8	800 000	72 100	47 500	919 600
Cost	800 000	100 000	63 000	963 000
Accumulated depreciation	-	(27 900)	(15 500)	(43 400)
Additions <i>(at cost)</i>	-	68 000	-	68 000
Disposals <i>(at book value)</i>	-	-	(6 000)	(6 000)
Depreciation for the year	-	(26 800)	(11 500)	(38 300)
Carrying amount at 31 Dec 20.8	800 000	113 300	30 000	943 300
Cost	800 000	168 000	48 000	1 016 000
Accumulated depreciation	-	(54 700)	(18 000)	(72 700)

STEP 3: Calculate equipments' depreciation

Cost Value

- Cost Balance 31 Dec 20.8 R 48 000
- Cost of Vehicle sold R 15 000
- Cost Balance 01 Jan 20.8 R 63 000

Accumulated Depreciation

- Balance at 1 Jan 20.8 R 15 500
 - Depreciation on sold equip for 20.8 R 1 500
 - Depreciation on sold equip to asset realisation account (R 9 000)
 - Closing balance R 8 000
- Book value of Asset sold (R15 000 – R9 000) R6 000***

DEPRECIATION ON EQUIPMENT

- Current equipment $(48\ 000 - 8\ 000) \times 25\%$ R 10 000
- Equipment sold (given) R 1 500
- Total depreciation on equipment R 11 500**

Accumulated Depreciation 31 Dec 20.10
(R15 500 + R11 500 – R9 000(sold))

R 18 000

PRESENTATION OF NOTES

PAUL&SHARK TRADERS

NOTES FOR THE YEAR ENDED 31 DECEMBER 20.8

1. Property, plant and equipment

	Land & buildings	Vehicles	Equip-ment	Total
	R	R	R	R
Carrying amount at 1 Jan 20.8	800 000	72 100	47 500	919 600
Cost	800 000	100 000	63 000	963 000
Accumulated depreciation	-	(27 900)	(15 500)	(43 400)
Additions <i>(at cost)</i>	-	68 000	-	68 000
Disposals <i>(at book value)</i>	-	-	(6 000)	(6 000)
Depreciation for the year	-	(26 800)	(11 500)	(38 300)
Carrying amount at 31 Dec 20.8	800 000	113 300	30 000	943 300
Cost	800 000	168 000	48 000	1 016 000
Accumulated depreciation	-	(54 700)	(18 000)	(72 700)

PAUL&SHARK TRADERS

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

		R
ASSETS	Note	
Non-current assets		
Property, plant and equipment	1	943 300

**EXCELLENT EXAMPLES:
TEXTBOOK: 2.1,2.2
STUDY GUIDE: 2.1**

Example 13:

Extract from the trial balance of Paul&Shark at 31 December 20.8:

Investments at cost	R100 000
---------------------	----------

Additional information:

Investments consist of 12 000 shares purchased in Puma Ltd for R70 000 and 5 000 shares in Zoo (Pty) Ltd purchased for R30 000. The market value of share in Puma Ltd was determined at R77 500.

PAUL&SHARK TRADERS

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

	Note	R
ASSETS		
Non-current assets		
Property, plant and equipment	1	943 300
Financial assets		30 000

Example 14:

Extract from the trial balance of Paul&Shark at 31 December 20.8:

Debtors control	R20 000
Allowance for credit losses	R 1 000
Accrued income	R 800

Additional information:

R5 000 owed by a debtor must be written off as irrecoverable and the allowance for credit losses must be adjusted to R1 500.

PAUL&SHARK TRADERS

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

	Note	R
ASSETS		
Non-current assets		973 300
Property, plant and equipment	1	943 300
Financial assets		30 000
Current assets		
Trade and other receivables	R[(20 000 – 5 000 – 1 500) + 800]	14 300

Example 15:

Extract from the trial balance of Paul&Shark at 31 December 20.8:

Administrative expenses R15 000

Additional information:

Included in the administrative expenses is an amount of R6 500 relating to insurance expense. The premiums are payable in advance and the January 20.9 premium is included in this figure.

PAUL&SHARK TRADERS

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

	Note	R
ASSETS		
Non-current assets		973 300
Property, plant and equipment	1	943 300
Financial assets		30 000
Current assets		
Trade and other receivables R[(20 000 – 5 000 – 1 500) + 800]		14 300
Prepayments (6 500 / 13 months)		500

Extract from the trial balance of Paul&Shark at 31 December 20.8:

Investments at cost R100 000

Additional information:

Investments consist of 12 000 shares purchased in Puma Ltd for R70 000 and 5 000 share in Zoo (Pty) Ltd purchased for R30 000. The market value of share in Puma Ltd was determined as R77 500. Shares in Puma Ltd were purchased for trade purposes.

Required:

Prepare an extract of the statement of financial position of Paul&Shark as at 31 December 20.8

PAUL&SHARK TRADERS

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

		R
ASSETS	Note	
Non-current assets		973 300
Property, plant and equipment	1	943 300
Financial assets		30 000
Current assets		92 300
Trade and other receivables R[(20 000 – 5 000 – 1 500) + 800]		14 300
Prepayments		500
Other financial assets		77 500

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

		R
ASSETS	Note	
Non-current assets		973 300
Property, plant and equipment	1	943 300
Financial assets		30 000
Current assets		92 300
Trade and other receivables R[(20 000 – 5 000 – 1 500) + 800]		14 300
Prepayments		500
Other financial assets		77 500
Total assets		<hr/> 1 065 600 <hr/>

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

	Capital		Current accounts		Appropriation	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
.....
.....
Balances at 31 December 20.8	62 500	75 000	77 985	67 040	-	282 525

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

	R
EQUITY AND LIABILITIES	
Total equity	282 525
Capital (Paul: R62 500; Shark: R75 000)	137 500
Current accounts (Paul: R77 985; Shark: R67 040)	145 025

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	R 149 075
Settlement discount granted	R 2 500
Allowance for settlement discount received	R 6 000
Long-term loan from AP Bank	R640 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	282 525
Capital (Paul: R62 500; Shark: R75 000)	137 500
Current accounts (Paul: R77 985; Shark: R67 040)	145 025
Total liabilities	783 075
Non-current liabilities	640 000
Long-term borrowings	640 000
Current liabilities	143 075
Trade and other payables R(149 075 – 6 000)	143 075
Total equity and liabilities	1 065 600

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

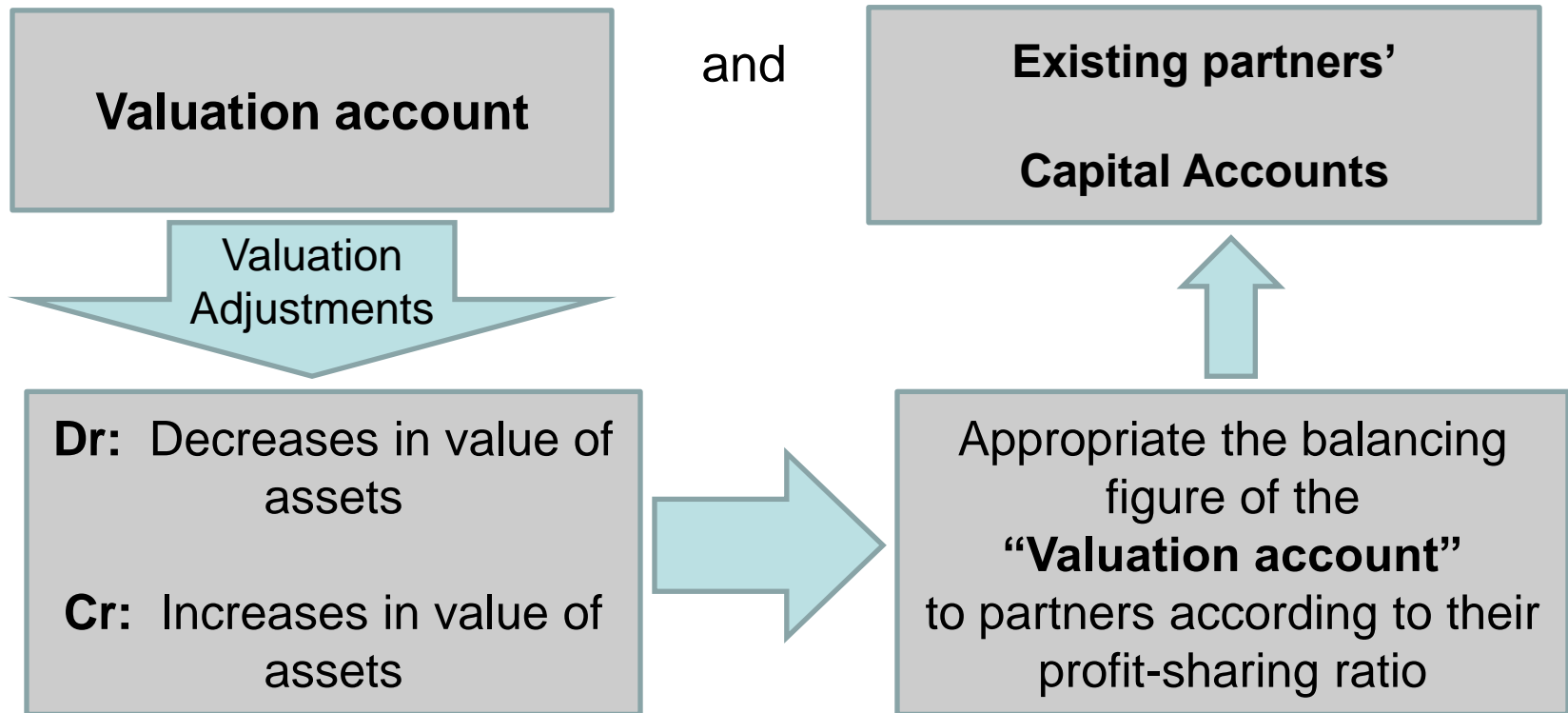
		R
ASSETS	Note	
Non-current assets		973 300
Property, plant and equipment	1	943 300
Financial assets		30 000
Current assets		92 300
Trade and other receivables R[(20 000 – 5 000 – 1 500) + 800]		14 300
Prepayments		500
Other financial assets		77 500
Total assets		1 065 600
EQUITY AND LIABILITIES		R
Total equity		282 525
Capital (Paul: R62 500; Shark: R75 000)		137 500
Current accounts (Paul: R77 985; Shark: R67 040)		145 025
Total liabilities		783 075
Non-current liabilities		640 000
Long-term borrowings		640 000
Current liabilities		143 075
Trade and other payables R(149 075 – 6 000)		143 075
Total equity and liabilities		1 065 600

STUDY UNIT 3

CHANGES IN THE OWNERSHIP STRUCTURE OF PARTNERSHIPS



A: RECORDING VALUATION ADJUSTMENTS



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	R 42 000
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

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	R 42 000
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
		Equipment (R126 000 – R111 000)	15 000

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	R 42 000
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 (R57 000 – R 52 000)	5 000	Equipment (R126 000 – R111 000)	15 000

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	R 42 000
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 (R57 000 – R 52 000)	5 000	Equipment (R126 000 – R111 000)	15 000
Capital: A (3/4 x R10 000)	7 500		
Capital: B (1/4 x R10 000)	2 500		
	15 000		15 000

GOODWILL

Goodwill can be described as a sound reputation of a business, which is influenced by factors such as the quality of the products or services rendered, efficient management, and valuable patent rights or trade marks.

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

B: CALCULATION OF GOODWILL ACQUIRED

The capital contribution of the incoming partner

MULTIPLIED BY

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

MINUS

Total equity of NEW partnership (A + B + C)

=

GOODWILL

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	R 42 000
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:

$$R(30\ 000 \text{ (cash)} + 40\ 000 \text{ (equip)}) \times 5/1 \text{ (20\% = 1/5 = 5/1)} = \underline{R350\ 000}$$

EQUITY OF NEW PARTNERSHIP (A, B AND C):

$$R[(126\ 000 + 7\ 500 \text{ (calc in val. Ac)}) + (42\ 000 + 2\ 500 \text{ (calc in val. Ac)})] + (30\ 000 + 40\ 000) = \underline{R248\ 000}$$

$$\underline{\text{GOODWILL}} \text{ (R350\ 000 - R248\ 000)} = \underline{\text{R102\ 000}}$$

C: RECORDING GOODWILL

Goodwill

	R		R
Capital: A	76 500	(R102 000 x $\frac{3}{4}$)	
Capital: B	25 500	(R102 000 x $\frac{1}{4}$)	
	102 000	<i>old p/sharing ratio</i>	

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

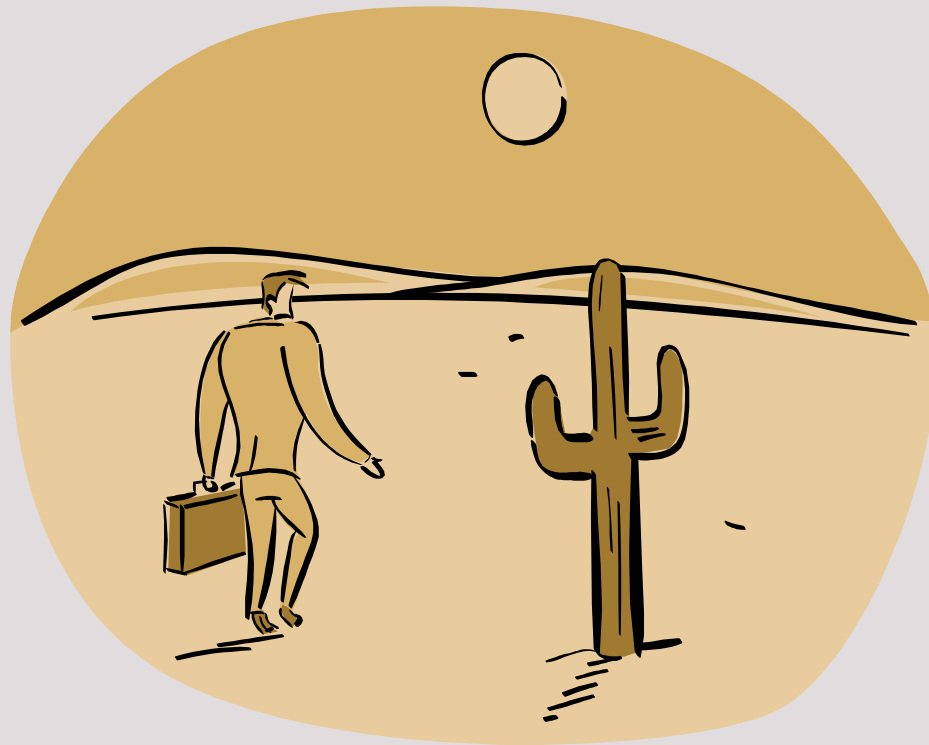
Steps in Change in Ownership:

- **Step 1: The Legal Perspective is being followed:**
 - Each Partnership is regarded as a separate business entity and the activities of these partnerships are therefore separately recorded and reported on.
- **Step 2: Recording Valuations Adjustments: (Valuation Account)**
 - Dr Valuation account for DECREASES in the value of assets
 - Cr: Valuation Account for INCREASES in the value of assets
 - Balance Closed off to existing partners capital account according to PSR
- **Step 3: Accounting for GOODWILL:**
 - **Calculation:** (Cap contr of New Partner) X Inverse of new partners share - Equity of the new partnership
 - Goodwill calc is allocated to existing partners in their old PSR
 - Dr Goodwill and Cr: Capital Account of each existing partner
- **Step 4: Calculating of new PS – Ratio: Text book P85 -89:**
 - Admission of a new Partner
 - Retirement or death

BREAK

STUDY UNIT 4

THE LIQUIDATION OF A PARTNERSHIP



A: LIQUIDATION METHODS

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**.

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
(**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
profits/losses from
liquidation account

IMPORTANT


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

C: SIMULTANEOUS LIQUIDATION - GOLDEN RULES

Close of balances of the drawings ,current accounts and partners loan accounts to the capital accounts of partners.



Close of balances of the goodwill and reserve accounts to the capital accounts – profit sharing ratio



Prepare the liquidation account. The balance is transferred to partners capital accounts according to PSR.



Record the settlement of the capital accounts
After all transactions recorded :
Balance in capital accounts = Balance in Bank account

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 (Dr)	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.

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 (Dr) ←	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.

**GENERAL LEDGER
MARK AND FISH**

Dr	Liquidation account		Cr

Dr	Bank		Cr
Balance	b/d	R 140 000	

Dr	Capital: Mark		Cr
		Balance	b/d R 330 000

Dr	Capital: Fish		Cr
		Balance	b/d R 280 000

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 (Dr)	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.

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

**GENERAL LEDGER
MARK AND FISH**

Dr	Liquidation account		Cr

Dr	Bank		Cr
Balance	b/d	R 140 000	

Dr	Capital: Mark		Cr
Goodwill	R 90 000	Balance	b/d R 330 000
		Asset replacement reserve	70 000

Dr	Capital: Fish		Cr
Goodwill	R 45 000	Balance	b/d R 280 000
		Asset replacement reserve	35 000

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 (Dr)	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.

**GENERAL LEDGER
MARK AND FISH**

Dr	Liquidation account		Cr
Land and buildings at cost	R 330 000	Accum. depreciation: Furniture	R 10 000
Furniture at cost	45 000	Long-term loan	85 000
Debtors control	160 000		

Dr	Bank		Cr
Balance	R 140 000		
b/d			

Dr	Capital: Mark		Cr
Goodwill	R 90 000	Balance	R 330 000
		Asset replacement reserve	70 000
		b/d	

Dr	Capital: Fish		Cr
Goodwill	R 45 000	Balance	R 280 000
		Asset replacement reserve	35 000
		b/d	

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 (Dr)	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.

PROCEEDS ON SALE OF FURNITURE

Balance (at cost) -- (<i>given</i>)	= R45 000
Less: Accumulated depreciation	= <u>R10 000</u>
Carrying amount at the date of liquidation	= R35 000
Add: Profit on sale -- (<i>given</i>)	= <u>R 3 000</u>
Proceeds on sale of furniture	= <u>R 38 000</u>

AMOUNT RECEIVED FROM DEBTORS – BANK (DEBTORS CONTROL)

Balance (debtors) -- (<i>given</i>)	= R160 000
160 000 X 95 % (<i>recoverable</i>) x 90% (<i>discount</i>)	
= 136 800	

**GENERAL LEDGER
MARK AND FISH**

Dr	Liquidation account		Cr
	R		R
Land and buildings 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 buildings)	450 000
Bank (Long-term loan)	85 000	Bank (Furniture)	38 000
Bank (Liquidation costs)	6 000	Bank (Debtors control)	136 800

Dr	Bank		Cr
	R		R
Balance b/d	140 000	Liquidation account (Long-term loan)	85 000
Liquidation account (Land and buildings)	450 000	Liquidation account (Liquidation costs)	6 000
Liquidation account (Furniture)	38 000		
Liquidation account (Debtors control)	136 800		

Dr	Capital: Mark		Cr
	R		R
Goodwill	90 000	Balance b/d	330 000
		Asset replacement reserve	70 000

Dr	Capital: Fish		Cr
	R		R
Goodwill	45 000	Balance b/d	280 000
		Asset replacement reserve	35 000

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 (Dr)	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.

ALLOCATION SHARE OF PROFITS / LOSSES IN LIQUIDATION ACCOUNT

- Debit side of liquidation account R626 000
(R330 000 + 45 000+160 000+ 85 000+ 6 000)
- Credit side of liquidation account R719 800
(R10 000+ 85 000+ 450 000+ 38 000+ 136 800)
- Balance R93 800

Capital Mark: $(93\ 800 \times 2/3) = 62\ 533$

Capital Fish: $(93\ 800 \times 1/3) = 31\ 267$

ALLOCATION OF CASH REMAINING IN BANK ACCOUNT ACCORDING TO BALANCES IN CAPITAL ACCOUNTS

Capital Mark: $(330\ 000 + 70\ 000 + 62\ 533 - 90\ 000) = 372\ 533$

Capital Fish: $(280\ 000 + 35\ 000 + 31\ 267 - 45\ 000) = \underline{301\ 267}$

Balance R673 800

**GENERAL LEDGER
MARK AND FISH**

Dr	Liquidation account		Cr
	R		R
Land and buildings 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 buildings)	450 000
Bank (Long-term loan)	85 000	Bank (Furniture)	38 000
Bank (Liquidation costs)	6 000	Bank (Debtors control)	136 800
Capital account: Mark	62 533		
Capital account: Fish	31 267		
	719 800		719 800

Dr	Bank		Cr
	R		R
Balance b/d	140 000	Liquidation account (Long-term loan)	85 000
Liquidation account (Land and buildings)	450 000	Liquidation account (Liquidation costs)	6 000
Liquidation account (Furniture)	38 000		
Liquidation account (Debtors control)	136 800		

Dr	Capital: Mark		Cr
	R		R
Goodwill	90 000	Balance b/d	330 000
		Asset replacement reserve	70 000
		Liquidation account	62 533

Dr	Capital: Fish		Cr
	R		R
Goodwill	45 000	Balance b/d	280 000
		Asset replacement reserve	35 000
		Liquidation account	31 267

**GENERAL LEDGER
MARK AND FISH**

Dr	Liquidation account		Cr
	R		R
Land and buildings 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 buildings)	450 000
Bank (Long-term loan)	85 000	Bank (Furniture)	38 000
Bank (Liquidation costs)	6 000	Bank (Debtors control)	136 800
Capital account: Mark	62 533		
Capital account: Fish	31 267		
	719 800		719 800

Dr	Bank		Cr
	R		R
Balance b/d	140 000	Liquidation account (Long-term loan)	85 000
Liquidation account (Land and buildings)	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

Dr	Capital: Mark		Cr
	R		R
Goodwill	90 000	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	45 000	Balance b/d	280 000
Bank	301 267	Asset replacement reserve	35 000
		Liquidation account	31 267
	346 267		346 267

D: PIECEMEAL LIQUIDATION - GOLDEN RULES

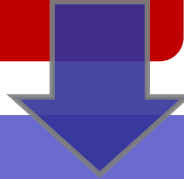
Close of balances of the drawings and current accounts to the capital accounts



Close of balances of the goodwill and reserve accounts to the capital accounts – profit sharing ratio




Prepare the liquidation account.
Apply the loss-absorption-capacity method



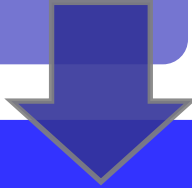
Record the settlement of the capital accounts

E: LOSS-ABSORPTION-CAPACITY METHOD

Determine the actual general ledger account balances on the date that cash becomes available for interim repayments



Debit any budgeted/contingent expenses to the partners' capital accounts – profit-sharing ratio



Close of all unsold assets to the capital accounts – profit-sharing ratio



Close off any anticipated deficit to the capital accounts of the partners who have favorable anticipated capital account balances – profit-sharing ratio

Example 4.3 (Record liquidation in columnar format)

Patrys, Pine and Promise are in a partnership, trading as African Timber and sharing in the profits and losses in the ratio of 5:3:2 respectively. The following information regarding the statement of financial position in respect to the partnership was prepared at 30 June 20.9:

African Timber	
Statement of Financial Position as at 30 June 20.9	
Property, plant and equipment	18 000
Capital: Patrys	8 000
Capital: Pine	5 000
Capital: Promise	2 000
Creditors control	3 000

Due to increasing liquidity problems the partners decided to liquidate the partnership piecemeal, as from 1 July 20.9. As soon as cash becomes available from the liquidation of assets, it must be paid to the partners in such a manner that no partner will have to refund the money to the partnership at a later stage.

The property, plant and equipment was liquidated as follows:

	Carrying amount	Cash received
1st Liquidation	2 500	2 500
2 nd Liquidation	5 600	5 000
3 rd Liquidation	6 000	6 000
4th Liquidation	3 900	4 000

	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 4.3 (Record liquidation in columnar format)

Patrys, Pine and Promise are in a partnership, trading as African Timber and sharing in the profits and losses in the ratio of 5:3:2 respectively. The following information regarding the statement of financial position in respect to the partnership was prepared at 30 June 20.9:

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Statement of Financial Position as at 30 June 20.9	
Property, plant and equipment	18 000
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Capital: Pine	5 000
Capital: Promise	2 000
Creditors control	3 000

Due to increasing liquidity problems the partners decided to liquidate the partnership piecemeal, as from 1 July 20.9. As soon as cash becomes available from the liquidation of assets, it must be paid to the partners in such a manner that no partner will have to refund the money to the partnership at a later stage.

The **property, plant and equipment** was liquidated as follows:

	Carrying amount	Cash received
1st Liquidation	2 500	2 500
2 nd Liquidation	5 600	5 000
3 rd Liquidation	6 000	6 000
4th Liquidation	3 900	4 000

	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)			

	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 (1 st liq)	2 500		(2 500)			
Payment to creditors	(2 500)	2 500				

Example 4.3 (Record liquidation in columnar format)

Patrys, Pine and Promise are in a partnership, trading as African Timber and sharing in the profits and losses in the ratio of 5:3:2 respectively. The following information regarding the statement of financial position in respect to the partnership was prepared at 30 June 20.9:

African Timber	
Statement of Financial Position as at 30 June 20.9	
Property, plant and equipment	18 000
Capital: Patrys	8 000
Capital: Pine	5 000
Capital: Promise	2 000
Creditors control	3 000

Due to increasing liquidity problems the partners decided to liquidate the partnership piecemeal, as from 1 July 20.9. As soon as cash becomes available from the liquidation of assets, it must be paid to the partners in such a manner that no partner will have to refund the money to the partnership at a later stage.

The property, plant and equipment was liquidated as follows:

	Carrying amount	Cash received
1st Liquidation	2 500	2 500
2 nd Liquidation	5 600	5 000
3 rd Liquidation	6 000	6 000
4th Liquidation	3 900	4 000

	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 (1 st 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

	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 (1 st liq)	2 500		(2 500)			
Payment to creditors	(2 500)	2 500				
Sale of assets (2 nd liq) and allocation of loss	5 000		(5 600)	300	180	120
Payment to creditors	(500)	500		600 x 5/10	600 x 3/10	600 x 2/10

	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 (1 st liq)	2 500		(2 500)			
Payment to creditors	(2 500)	2 500				
Sale of assets (2 nd 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)

	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 (1 st liq)	2 500		(2 500)			
Payment to creditors	(2 500)	2 500				
Sale of assets (2 nd 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 as cash is available for int. repayments	4 500	-	9 900	(7 700)	(4 820)	(1 880)
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	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 (1 st liq)	2 500		(2 500)			
Payment to creditors	(2 500)	2 500				
Sale of assets (2 nd 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 as cash is available for int. repayments	4 500	-	9 900	(7 700)	(4 820)	(1 880)
Assets “written off” <i>(profit sharing ratio)</i>			(9 900)	4 950	2 970	1 980

	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 (1 st liq)	2 500		(2 500)			
Payment to creditors	(2 500)	2 500				
Sale of assets (2 nd 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 as 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"				(5/8) 62	(3/8) 38	(100)

	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 (1 st liq)	2 500		(2 500)			
Payment to creditors	(2 500)	2 500				
Sale of assets (2 nd 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 as 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"				(5/8) 62	(3/8) 38	(100)
	4 500	-	-	(2 688)	(1 812)	-

	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 (1 st liq)	2 500		(2 500)			
Payment to creditors	(2 500)	2 500				
Sale of assets (2 nd 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)	-		<u>2 688</u>	<u>1 812</u>	-
Balances			9 900	(5 012)	(3 008)	(1 880)

Interim repayments (loss-absorption-capacity method)						
Balances as 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"				(5/8) 62	(3/8) 38	(100)
	4 500	-	-	(2 688)	(1 812)	-

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

Example 4.3 (Record liquidation in columnar format)

Patrys, Pine and Promise are in a partnership, trading as African Timber and sharing in the profits and losses in the ratio of 5:3:2 respectively. The following information regarding the statement of financial position in respect to the partnership was prepared at 30 June 20.9:

African Timber	
Statement of Financial Position as at 30 June 20.9	
Property, plant and equipment	18 000
Capital: Patrys	8 000
Capital: Pine	5 000
Capital: Promise	2 000
Creditors control	3 000

Due to increasing liquidity problems the partners decided to liquidate the partnership piecemeal, as from 1 July 20.9. As soon as cash becomes available from the liquidation of assets, it must be paid to the partners in such a manner that no partner will have to refund the money to the partnership at a later stage.

The property, plant and equipment was liquidated as follows:

	Carrying amount	Cash received
1st Liquidation	2 500	2 500
2 nd Liquidation	5 600	5 000
3 rd Liquidation	6 000	6 000
4th Liquidation	3 900	4 000

	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)			

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

	Bank	Cred. Control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balances brought forward	-	-	9 900	(5 012)	(3 008)	(1 880)
Sale of assets (3 rd 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 as cash is available for int. repayments	6 000	-	3 900	(5 012)	(3 008)	(1 880)

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

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

	Bank	Cred. Control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balances brought forward	-	-	9 900	(5 012)	(3 008)	(1 880)
Sale of assets (3 rd liq)	6 000		(6 000)			
Balances brought forward	6 000		3 900	(5 012)	(3 008)	(1 880)
Balances	(6 000)	-	-	3 062	1 838	1 100
			3 900	(1 950)	(1 170)	(780)

Interim repayments (loss-absorption-capacity method)						
Balances as 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 4.3 (Record liquidation in columnar format)

Patrys, Pine and Promise are in a partnership, trading as African Timber and sharing in the profits and losses in the ratio of 5:3:2 respectively. The following information regarding the statement of financial position in respect to the partnership was prepared at 30 June 20.9:

African Timber	
Statement of Financial Position as at 30 June 20.9	
Property, plant and equipment	18 000
Capital: Patrys	8 000
Capital: Pine	5 000
Capital: Promise	2 000
Creditors control	3 000

Due to increasing liquidity problems the partners decided to liquidate the partnership piecemeal, as from 1 July 20.9. As soon as cash becomes available from the liquidation of assets, it must be paid to the partners in such a manner that no partner will have to refund the money to the partnership at a later stage.

The property, plant and equipment was liquidated as follows:

	Carrying amount	Cash received
1st Liquidation	2 500	2 500
2 nd Liquidation	5 600	5 000
3 rd Liquidation	6 000	6 000
4 th Liquidation	3 900	4 000

	Bank	Cred. Control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balances brought forward	-	-	3 900	(1 950)	(1 170)	(780)
Sale of assets (4th liq)	4 000		(3 900)	(50)	(30)	(20)

	Bank	Cred. Control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balances brought forward	-	-	3 900	(1 950)	(1 170)	(780)
Sale of assets (4th liq)	4 000		(3 900)	(50)	(30)	(20)
Balances brought forward	4 000		-	(2 000)	(1 200)	(800)

	Bank	Cred. Control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balances brought forward	-	-	3 900	(1 950)	(1 170)	(780)
Sale of assets (4 th liq)	4 000		(3 900)	(50)	(30)	(20)
Balances brought forward	4 000		-	(2 000)	(1 200)	(800)

Interim repayments (loss-absorption-capacity method)						
Balances as cash is available for int. repayments	4 000	-	-	(2 000)	(1 200)	(800)

	Bank	Cred. Control	PPE	Capital: Patrys	Capital: Pine	Capital: Promise
Balances brought forward	-	-	3 900	(1 950)	(1 170)	(780)
Sale of assets (4 th liq)	4 000		(3 900)	(50)	(30)	(20)
Balances brought forward	4 000		-	(2 000)	(1 200)	(800)

Interim repayments (loss-absorption-capacity method)						
Balances as cash is available for int. repayments	4 000	-	-	(2 000)	(1 200)	(800)
Settlement of Capital accounts	(4 000)	-	-	2 000	1 200	800

STUDY UNIT 5

CLOSE CORPORATIONS



A: FRAMEWORK OF THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

PITSO CC

STATEMENT OF PROFIT OR LOSS AND OTHER 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

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	R 2 500

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 profit or loss and other comprehensive income for the year ended 28 February 20.9.

**TRAVELGATE CC
STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 28 FEBRUARY 20.9**

	R
Distribution, administrative and other expenses	
Salaries and wages R(250 000 – 60 000)	190 000
Salaries to members	60 000

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	R 2 500

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 profit or loss and other comprehensive income for the year ended 28 February 20.9.

**TRAVELGATE CC
STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 28 FEBRUARY 20.9**

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

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	R 2 500

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 profit or loss and other comprehensive income for the year ended 28 February 20.9.

**TRAVELGATE CC
STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 28 FEBRUARY 20.9**

	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

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)	R 50 000 (Dr)
Profit before tax	R398 000

Additional information:

A 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 PROFIT OR LOSS & OTHER 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	
Profit for the year	
Other comprehensive income for the year	
Total comprehensive income for the year	

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)	R 50 000 (Dr)
Profit before tax	R398 000

Additional information:

A normal income tax assessment for the financial year was received on 1 March 20.9, indicating a balance of R61 440 still 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 PROFIT OR LOSS & OTHER 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	
Other comprehensive income for the year	
Total comprehensive income for the year	

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)	R 50 000 (Dr)
Profit before tax	R398 000

Additional information:

A normal income tax assessment for the financial year was received on 1 March 20.9, indicating a balance of R61 440 still 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 PROFIT OR LOSS & OTHER 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	

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)	R 50 000 (Dr)
Profit before tax	R398 000

Additional information:

A normal income tax assessment for the financial year was received on 1 March 20.9, indicating a balance of R61 440 still 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 PROFIT OR LOSS & OTHER 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	

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)	R 50 000 (Dr)
Profit before tax	R398 000

Additional information:

A normal income tax assessment for the financial year was received on 1 March 20.9, indicating a balance of R61 440 still 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 PROFIT OR LOSS & OTHER 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

FRAMEWORK OF THE STATEMENT OF CHANGES IN NET INVESTMENT OF MEMBERS

PITSO CC

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

	Members' contributions	Retained earnings	Loans from /(to) members	Asset replacement reserve	Total
	R	R	R	R	R
Balances at 1 March 20.8	0000	0000	0000	0000	0000
Total comprehensive income for the year		0000			0000
Transfer to asset replacement reserve		(0000)		0000	
Distributions to members		(0000)			(0000)
Loans from members			0000		0000
Balances at 28 February 20.9	0000	0000	0000	0000	0000

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	R 62 500
Member's contribution: G Gate	R 75 000
Retained earnings (1 March 20.8)	R318 900
Asset replacement reserve (1 March 20.8)	R 22 500

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**

	Members' contribu- tions	Retained earnings	Asset replace- ment reserve	Total

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	R 62 500	} R137 500
Member's contribution: G Gate	R 75 000	
Retained earnings (1 March 20.8)	R318 900	
Asset replacement reserve (1 March 20.8)	R 22 500	

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**

	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

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	R 20 000

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
Total compr. income for the year	R	R	R	R

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	R 20 000

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
Total compr. income for the year	R	R 286 560	R	R 286 560

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	R 20 000

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 compr. income for the year		286 560		286 560
Distribution to members (20 000 + 5 000)		(25 000)		(25 000)

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	R 20 000

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 compr. income for the year		286 560		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' 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
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

PITSO CC

STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 20.9

		R
ASSETS	Note	
Non-current assets		0000
Property, plant and equipment	1	0000
Current assets		0000
Inventories		0000
Cash and cash equivalents		0000
Total assets		0000
EQUITY AND LIABILITIES		
Total equity		0000
Members' contributions		0000
Retained earnings		0000
Total liabilities		0000
Current liabilities		0000
Trade and other payables		0000
Distribution to members payable		0000
Current tax payable		0000
Total equity and liabilities		0000

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

**Wishing you the best on your
studies!**

**FAC1601
LECTURERS**

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