

FAC1601

**FINANCIAL
ACCOUNTING REPORTING**

FAC1601

LECTURERS

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STUDY UNIT 1

INTRODUCTION TO THE PREPARATION OF FINANCIAL STATEMENTS

A: TYPES OF FINANCIAL STATEMENTS AND NOTES

International Accounting Standards Board IAS1 (AC101)

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

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

STUDY UNIT 2

ESTABLISHMENT AND FINANCIAL STATEMENTS OF A PARTNERSHIP

A: FINANCIAL STATEMENTS OF PARTNERSHIPS

Financial statements should comply with IAS (GAAP).

A partnership is an accounting entity and not a legal entity.

A partnership does not pay tax - the partners pay tax in their personal capacity.

Salaries, bonuses and commissions to partners, interest on current and capital accounts, and drawings must be disclosed in the statement of changes in equity.

Interest on loans to partners must be disclosed in the statement of comprehensive income as part of “**OTHER INCOME**”.

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

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

B: FRAMEWORK OF THE STATEMENT OF COMPREHENSIVE INCOME

ABC TRADERS

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 20.9

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

Example 1:

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 comprehensive income of Paul&Shark Traders for the year ended 31 December 20.8.

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

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

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:

Fixed deposit - Last National Bank	R100 000
Allowance for settlement discount received	R 5 000
Rental income	R 22 000

Additional information:

The fixed deposit at Last National Bank was made on 28 February 20.8 for a period of 5 years at 9% interest per annum. The interest is receivable at the end of each borrowing year.

Required:

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

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

	R
Gross profit	409 600
Other income	29 500
Interest income: Loans and receivables: Fixed deposit	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 13 500

Additional information:

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

Required:

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

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

	R
Distribution, administrative and other expenses	
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.

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

PAUL&SHARK TRADERS

STATEMENT OF 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
Interest income: Loans and receivables: Fixed deposit	7 500
Rental income	22 000
Distribution, administrative and other expenses	
Salaries and wages	134 900
Credit losses	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.

PAUL&SHARK TRADERS

STATEMENT OF 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
Interest income: Loans and receivables: Fixed deposit	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	5 000
Depreciation	38 300

PAUL&SHARK TRADERS

STATEMENT OF 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
Interest income: Loans and receivables: Fixed deposit	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

Finance costs		R
		(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 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
Interest income: Loans and receivables: Fixed deposit	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
Balances at 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	R250 000

Additional information:

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

Required:

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

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

	Capital		Current accounts		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			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	R250 000

Additional information:

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

PAUL&SHARK TRADERS

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

	Capital		Current accounts		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			60 000	60 000	(120 000)	
Drawings			(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			6 250	7 500	(13 750)	
Interest on current accounts			(125)	300	(175)	

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 .

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

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	-	68 000	-	68 000
Disposals	-	-	(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)

Example 13:

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

Fixed deposit	R100 000
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Additional information:

The fixed deposit at Last National Bank was made on 28 February 20.8 for a period of 5 years at 9% interest per annum. The interest is receivable at the end of each borrowing year.

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		100 000

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		1 043 300
Property, plant and equipment	1	943 300
Financial assets		100 000
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*)

		R
ASSETS	Note	
Non-current assets		1 043 300
Property, plant and equipment	1	943 300
Financial assets		100 000
Current assets		
Trade and other receivables R[(20 000 – 5 000 – 1 500) + 800]		14 300
Prepayments		500

PAUL&SHARK TRADERS**STATEMENT OF FINANCIAL POSITION AS AT 28 FEBRUARY 20.9 (extract)**

		R
ASSETS	Note	
Non-current assets		1 043 300
Property, plant and equipment	1	943 300
Financial assets		100 000
Current assets		14 800
Trade and other receivables R[(20 000 – 5 000 – 1 500) + 800]		14 300
Prepayments		500
Total assets		<u>1 058 100</u>

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	R141 575
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	775 575
Non-current liabilities	640 000
Long-term borrowings	640 000
Current liabilities	135 575
Trade and other payables R(141 575 – 6 000)	135 575
Total equity and liabilities	1 058 100

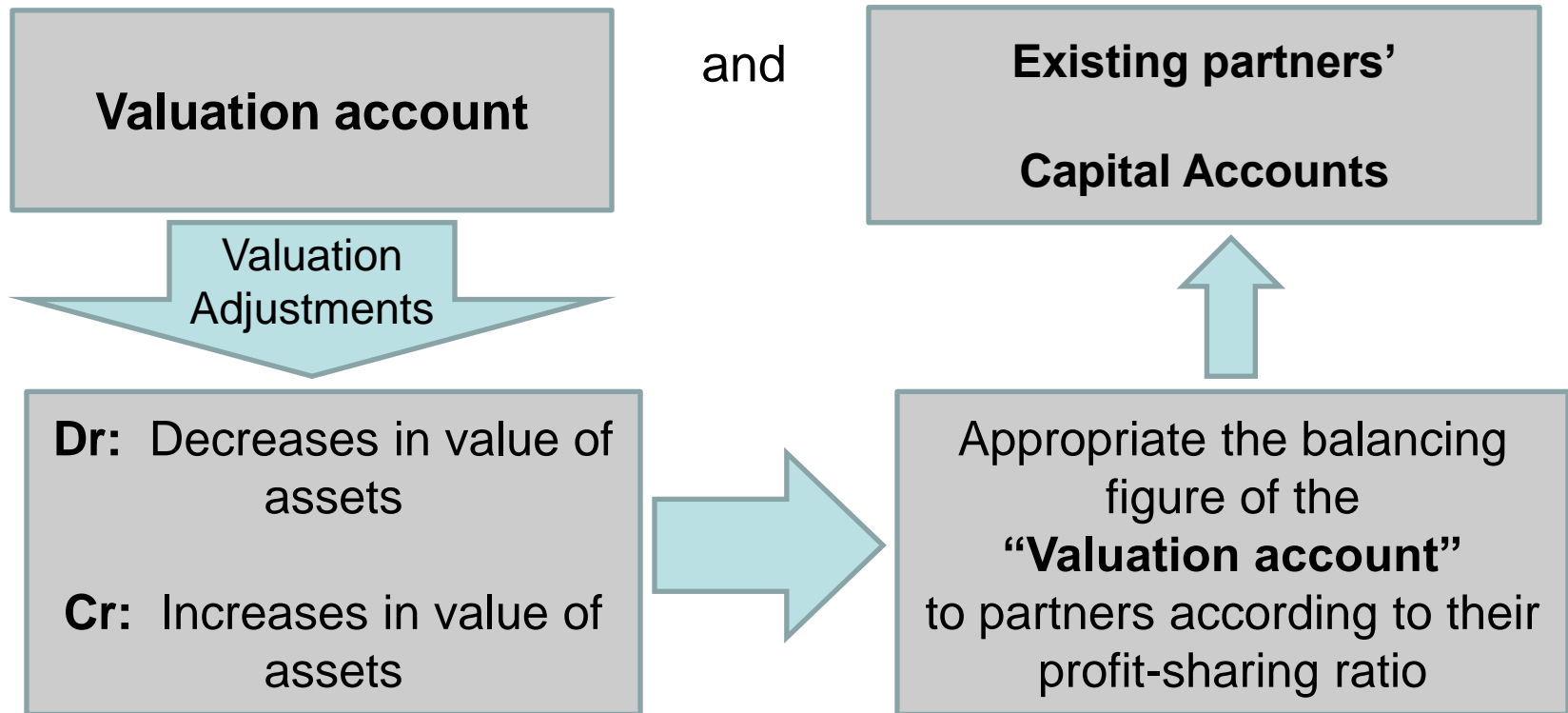
PAUL&SHARK TRADERS**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 20.8**

		R
ASSETS	Note	
Non-current assets		1 043 300
Property, plant and equipment	1	943 300
Financial assets		100 000
Current assets		14 800
Trade and other receivables R[(20 000 – 5 000 – 1 500) + 800]		14 300
Prepayments		500
Total assets		1 058 100
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		775 575
Non-current liabilities		640 000
Long-term borrowings		640 000
Current liabilities		135 575
Trade and other payables R(141 575 – 6 000)		135 575
Total equity and liabilities		1 058 100

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
		Equipment	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	5 000	Equipment	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	5 000	Equipment	15 000
Capital: A (3/4 x R15 000)	7 500		
Capital: B (1/4 x R15 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

MINUS

Total equity of existing partners
(inclusive of valuation adjustments)

AND

Capital contribution by the incoming partner

=

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:

$$R(30\ 000 + 40\ 000) \times 5/1 = \underline{R350\ 000}$$

EQUITY OF A, B AND C:

$$R[(126\ 000 + 7\ 500) + (42\ 000 + 2\ 500) + (30\ 000 + 40\ 000)] = \underline{R248\ 000}$$

$$\text{GOODWILL} = \underline{R102\ 000}$$

C: RECORDING GOODWILL

Goodwill

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

Capital: A

	R		R
		Balance	126 000
		Valuation account	7 500
		Goodwill	76 500
			210 000

Capital: B

	R		R
		Balance	42 000
		Valuation account	2 500
		Goodwill	25 500
			70 000

STUDY UNIT 4

THE LIQUIDATION OF A PARTNERSHIP

A: LIQUIDATION METHODS

1. Simultaneous liquidation:

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

2. Piecemeal liquidation:

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

B: SIMULTANEOUS LIQUIDATION OF A PARTNERSHIP

**Liquidation
Account**



All assets
(**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

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
	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
	763 800		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

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

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>

C: PIECEMEAL LIQUIDATION

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

	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)

	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				

	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				

	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”			(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"				62	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"				62	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)	-		2 688	1 812	-

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"				62	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)

	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)
	(6 000)	-	-	3 062	1 838	1 100

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)

D: PIECEMEAL LIQUIDATION - GOLDEN RULES

- Open the applicable accounts in columnar form with balances;
- Close off “Reserve and Goodwill” accounts to partners capital accounts;
- Apportion profits or losses from each realisation of assets to capital accounts;
- When cash becomes available, all liabilities must be paid until they are fully settled before partners get any amount as capital repayment;
- Once the liabilities are fully settled, a calculation is done to determine how **interim repayments** must be made to partners, if cash is available:

Commence with the balances at the date when cash is available for distribution;

Assume that unsold assets are worthless and apportion the potential deficit to the partners’ capital accounts according to their profit-sharing ratio;

If a partner’s capital account results in a deficit, assume that the partner is insolvent and transfer the deficit to the other partners according to *their* profit-sharing ratio;

The sum of the balances of the solvent partners’ capital accounts should equal the cash that is available for distribution to the solvent partners.

STUDY UNIT 5

CLOSE CORPORATIONS

A: FRAMEWORK OF THE STATEMENT OF COMPREHENSIVE INCOME

PITSO CC

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 20.9

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

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 comprehensive income for the year ended 28 February 20.9.

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

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

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 comprehensive income for the year ended 28 February 20.9.

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

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

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 ' contribu- tions	Retained earnings	Loans from member s	Asset replace- ment 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
	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' contribu- tions	Retained earnings	Asset replacement reserve	Total
	R	R	R	R
Total compr. income for the year		286 560		
Distribution to members		(25 000)		(25 000)
Transfer to asset repl. res.		(35 000)	35 000	

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

	Members' 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 R(141 575 – 6 000)		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' contribu- tions	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**