Task IM-4.28: Preparing Financial Statements via Trial Balance

SIEVERS (Pty) Ltd. is a book store. The company prepares a trial balance as at 31.12.20X4. See below:

TRIAL	s GmbH's BALANCE L.12.20X4	
Account	Debit entries	Credit entries
Cash/Bank	113,249.00	
Issued capital		75,000.00
Interest bearing liabilities		40,000.00
Purchase	47,500.00	
VAT		7,420.00
Returns outwards		600.00
Accounts receivables	12,720.00	
Labour	30,000.00	
Rent	16,991.00	
Ρ, Ρ, Ε	16,000.00	
Accounts payables		13,440.00
Sales		100,000.00
Total:	236,460.00	236,460.00

Exhibit 1: Trial balance

The business activities below lead to the trial balance, you must make adjustments:

(1) Establishment of the company by share issue to the extent of 75,000.00 EUR

(2) On 2.01.20X4, taking a bank loan 40,000.00 EUR, interest and pay-off of the bank loan is to be considered as adjustments. The bank loan is an annuity with an annual payment of 4,000.00 EUR/a. The rate of interest is 2.3 %/a. You must disclose the bank loan along IAS 1. No discounting of liabilities is required.
(3) Purchase of books at a gross value of 57,000.00 EUR on cash.

(4) Return of 20 Accounting books to the publisher (printer) in exchange for a voucher as there is a new edition on the market. 36 × 20 = 720.00 EUR, the net amount equals to 720/1.2 = 600.00 EUR.
(5) Labour: 30,000.00 EUR/a.

(6) Rent: 1,300.00 EUR/m. The rent for January 20X5 is paid in 20X4 already. From 20X5, monthly rent increases by 7 %. Rent is not subject to VAT. The recording of prepaid expenses at the end of the Accounting period is part of adjustments (you).

(7) Acquisition of interior at cost of acquisition of 16,000.00 EUR. Payment is amounting to 30 % - the remaining amount is paid in the next Accounting period.

(8) Sale of books that are valued at 45,000.00 EUR at a net selling price of 100,000.00 EUR. The customers pay cash to an extent of 90 %.

Required: You are supposed to prepare an income statement and a balance sheet. Derive the income statement via a Trading account and determine the gross profit. Make adjustments such as depreciation, interest, pay-off of bank loan, debts separation, recording prepaid expenses, returns etc., and prepare the Profit and Loss account. Consider depreciation on the interior to be 2,000.00 EUR/a. Disclose the bank loan along IAS 1.

Solution:

Recording adjustments:

(A) Depreciation 2,000.00 EUR

(B) Prepaid expenses for rent: 1.07 × 1,300 = 1,391.00 EUR

(C) Payment of interest and pay-off: Interest is amounting to $2.3\% \times 40,000 = 920.00$ EUR. Pay-off equals to 4,000 - 920 = 3,080.00 EUR.

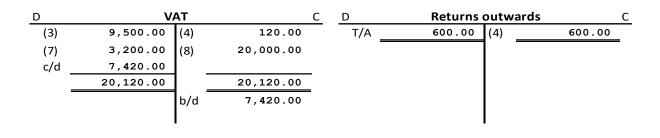
(D) Separate short-term liabilities from the bank loan. Next year's pay-off equals to: $4,000 - (40,000 - 2,080) \times 2.3\% = 3,127.84 \text{ EUR}.$

The closing stock of books as recorded in the inventory account and Trading account equals to 47,500 - 600 - 45,000 = 1,900.00 EUR.

Observe the accounts and the financial statements below:

D	Cash	/Bank	ζ.	С	D	Issued	capita	l	С
(1)	75,000.00	(3)	57,000.00		c/d	75,000.00	(1)	75,000.00	_
(2)	40,000.00	(5)	30,000.00		_		b/d	75,000.00	-
(8)	108,000.00	(6)	16,991.00						
		(7)	5,760.00						
		c/d	113,249.00	_					
	223,000.00		223,000.00	_					
b/d	113,249.00	(C)	4,000.00	_					
		c/d	109,249.00	_					
	113,249.00		113,249.00	_					
b/d	109,249.00			-					
D	Interest hea	ring li	ahilities	C	D	Pur	chase		C

D	Interest bear	ring ii	abilities C	<u> </u>	Purc	nase	L
(C)	3,080.00	(2)	40,000.00	(3)	47,500.00	T/A	47,500.00
(D)	3,127.84						
c/d	33,792.16						
	40,000.00		40,000.00				
		b/d	33,792.16				



D	A	/R	С	D	Lab	our	C
(4)	720.00			(5)	30,000.00	P&L	30,000.00
(8)	12,000.00	c/d	12,720.00				
	12,720.00		12,720.00				
b/d	12,720.00						

D	Re	ent	(C	D	Prepaid	ехреі	nses	С
(6)	16,991.00	(B)	1,391.00		(B)	1,391.00	c/d	1,391.00	_
		c/d	15,600.00		b/d	1,391.00			-
	16,991.00		16,991.00						
b/d	15,600.00	P&L	15,600.00						

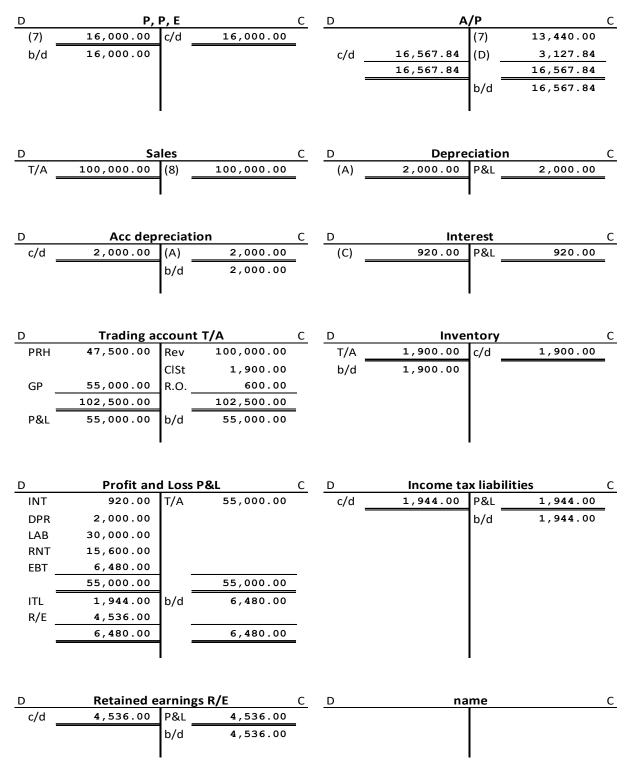


Exhibit 2: Accounts

Sievers (Pty) Ltd.'s STATEMENT of PROFIT & LOSS and OTHER COMPREHENSIVE INCOME for the year ended 31.12.20X4

for the year ended 31.12.2074					
	[EUR]				
Revenue	100,000.00				
Other income					
	100,000.00				
Materials	(45,000.00)				
Labour	(30,000.00)				
Depreciation	(2,000.00)				
Other expenses	(15,600.00)				
Earnings before int. & taxes (EBIT)	7,400.00				
Interest	(920.00)				
Earnings before taxes (EBT)	6,480.00				
Income tax expenses	(1,944.00)				
Deferred taxes					
Earnings after taxes (EAT)	4,536.00				

Exhibit 3: Income statement

Sievers (Pty) Ltd.'s STATEMENT of FINANCIAL POSITION

A	as at 31	.12.20X4				
Non-current assets	[EUR]	Equity	[EUR]			
Ρ, Ρ, Ε	14,000.00	Share capital	75,000.00			
Intangibles		Reserves				
Financial assets		Retained earnings	4,536.00			
Current assets		Liabilities				
Inventory	1,900.00	Interest bear liab	33,792.16			
Accounts receivables	12,720.00	Accounts payables	23,987.84			
Prepaid expenses	1,391.00	Provisions				
Cash/Bank	109,249.00	Tax liabilities	1,944.00			
Total assets	139,260.00	Total equity and liab.	139,260.00			
		1				

Exhibit 4: Balance sheet