

PENANG SANGAM HIGH SCHOOL

P. O BOX 44, RAKIRAKI

LESSON NOTES Weeks 7,8 &9

SUBJECT: ACCOUNTING

YEAR/LEVEL: 13

Strand 3: COMPANY ACCOUNTING

Sub-strand 3.3: Annual Accounts of Companies

Content Learning Outcome: Prepare the required final accounts for company business.

Greetings to you all, hope all my students are in good health, from this week (week 7) we will continue with our coverage of year 13 Accounting syllabi. We have already started with strand 3 and completed issue of shares. So now we will continue with strand 3, final accounts prepared by companies which will be coverage of weeks 7, 8 and 9.

Notes:

It is a statutory obligation of all companies in Fiji to follow the relevant sections of Fiji Companies Act 2015, while preparing their final accounts. Companies are to prepare the following final accounts:

- ✓ Statement of Financial Performance/ Revenue Statement (To calculate Net Profit/Loss after Tax).
- ✓ Statement of Profit and Loss Appropriation (To effect dividend distribution to the shareholders).
- ✓ Statement of Financial Position/ Balance sheet (To show financial position of the company at the end of the accounting period).
- ✓ Cash flow Statement (shows cash inflows and cash outflows of the company during an accounting period). (*Note: This will be covered in Strand 4 of our coverage*).

Treatment of Items in the Final Accounts		
Item	Classification	Final Account to Record
Directors Fees	Administrative expense	Statement of Financial Performance
Audit Fees	Administrative expense	Statement of Financial Performance
Debenture	Long-Term Liability	Statement of Financial Position
Interest on Debentures	Financial expense	Statement of Financial Performance
Formation Expense/ Preliminary expenses/ Cost of Share Issue	Intangible Assets	Statement of Financial Position
Amortisation of Intangible assets/Goodwill or preliminary expenses	Administrative expense	Statement of Financial Performance

(Similar to depreciation of Fixed assets)		
Provisions (Provision for Income tax/ Provision for final dividend)/Final dividend payable/Income Tax payable	Current liabilities	Statement of Financial Position
General Reserve (Trial Bal Amount + Transfer Amount)	Reserves	Statement of Financial Position (Shareholders Equity Section)
Share Premium	Reserves	Statement of Financial Position (Shareholders Equity Section)
Interest received on government bonds	Other Income	Statement of Financial Performance
Dividends (Final/ Interim/ Transfer to general reserve)	Calculated on paid-up capital of the company	Profit and Loss Appropriation

Taxation

Companies are required to pay income tax on their profits, however if they do not have to pay tax in case of a Loss. Usually companies will provide/adjust for taxation during the year but it is just estimated and actual tax is only known when the tax is paid at the end of accounting period when profit is finalised.

This leads to a **variance/difference** between actual tax and estimated tax known as **over-provision or under provision for tax.**

Provision for tax.	Recorded on	To adjust
Over-provision	Trial Balance- CR side	Deduct/Subtract from Income Tax in Statement of Financial performance.
Under provision	Trial Balance- DR side	Add to Income Tax in Statement of Financial performance.

(Refer to Fully classified Statement of Financial performance for this; this is the last part of the statement)

Reserves- are part of profits kept by the business for a purpose of expansion	
Revenue Reserves (For e.g. specific reserves/ General reserves)	Capital Reserves (For e.g. Share premium/ Asset revaluation reserve)
-are available for distribution to shareholders as dividends. -they do not increase the net assets value of the company.	- not available for distribution as dividends. - increases the net assets value/shareholders' equity of the company.

FORMAT OF THE STATEMENT OF FINANCIAL PERFORMANCE

..... Company Limited Statement of Financial Performance for the year ended			
	\$	\$	\$
Sales		XX	
Less Sales Returns		XX	XX
Less Cost of Goods Sold			
Opening stock		XX	
Add Purchases	X		
Less Purchase returns	X	XX	
Goods made Available for Sale		XX	
Less Closing Stock		XX	XX
Gross Profit or Loss			XX
Add Other Income			
Discount revenue		XX	
Interest on Government Bonds		XX	XX
			XX
Less Expenses			
Selling and Distribution Expenses			
Sales – salaries	X		
Advertising	X		
Cartage on sales	X	XX	
General and Administrative Expenses			
Office expenses	X		
Insurance	X		
Depreciation on Motor Vehicles	X		
Audit Fees	X		
Directors Fees	X		
Amortisation of preliminary expenses	X	XX	
Financial Expenses			
Bad debts	X		
Interest on debentures	X		
Discount expenses	X		
Doubtful debts	X	XX	XX
			XX
Less Other Expenses			
Burglary			XX
Net Profit Before Tax			XXX
Income Tax <i>(Net profit before tax x Tax rate)</i>		XX	
Less Over-Provision for Income Tax/Add Under-Provision for income tax		XX	XX
Net Profit or Loss after tax			XXX

FORMAT OF THE PROFIT AND LOSS APPROPRIATION STATEMENT

..... Company Limited		
Profit and Loss Appropriation Statement for the year ended		
	\$	\$
Balance	x	
Add Net Profit after tax	x	xxx
Less Final Dividend (<i>Paid-up capital x dividend rate</i>) – Interim dividend	x	
Interim Dividend (<i>Pick from trial balance</i>)	x	
General Reserve (<i>Pick from adjustments</i>)	x	xxx
Balance (Retained Earnings)		xxx

Note:

1. Opening Balance of this statement will be given in the question (Trial Balance).
2. Net Profit after tax comes from the statement of financial performance.
3. Final dividend = (Paid-up Capital x dividend rate) – interim dividend
4. Paid-up Capital = Authorised capital – unissued capital- uncalled capital – unpaid/calls due/arrears
5. Interim dividend will be given in the question (Trial Balance).
6. Only take **transfers** to general reserve in this statement (will be given in the question under **additional information**).
7. The closing balance of the Profit and Loss Appropriation Statement will be transferred to Statement of financial position under **Reserves**.

FORMAT OF THE STATEMENT OF FINANCIAL POSITION

..... Company Limited			
Statement of Financial Position as at			
	\$	\$	\$
Current Assets			
Cash at bank		XX	
Accounts receivable	XX		
Less Provision for doubtful debts	XX	XX	
Inventories		XX	
Interest on Government Bonds due		XX	XX
Add Non- Current Assets			
Add Investments			
Investment in Government Bonds			XX
Add Fixed Assets			
Motor vehicles	XX		
Less accumulated depreciation	XX	XX	
Land		XX	
Building		XX	XX
Add Intangible Asset			
Preliminary expenses			XX
Total Assets			XX
Less Liabilities			
Less Current Liabilities			
Accounts payable	XX		
Interest on debenture owing	XX		
Provision for income tax	XX		
Provision for final dividend	XX	XX	
Less Non-Current Liabilities			
Debentures		XX	XX
Net Assets			XXX
Shareholders' Equity			
Authorised Capital		XX	
Less Unissued capital		XX	
Issued and paid up capital		XX	
Less uncalled capital		XX	
Called- up capital		XX	
Less Call in Arrears		XX	
Paid Up capital		XX	
Add Calls In Advance		XX	XX
Add Reserves			
Share premium		XX	
General reserve (<i>Trial Balance amount + Transfer amount</i>)		XX	
Profit and Loss Appropriation (<i>Account closing balance</i>)		XX	XX
Total Shareholders Fund			XXX

Illustrative Example

Given below is the Trial balance of Vula Company Limited for the year ended 31st March 2018.

Vula Company Ltd		
Trial Balance as at 31st March 2018		
	\$	\$
Sales		95 000
Sales Returns	220	
Interest on government bonds		700
Discount revenue		90
Purchases	22 820	
Purchase returns		80
Advertising	1 000	
Cartage on sales	440	
Salaries – sales	18 000	
Insurance	1 050	
Office expenses	2 460	
Cellphone Expenses	720	
Directors fees	2 500	
Bad debts	100	
Discount expense	70	
Interest on debentures	300	
Loss by Flood	500	
Cash at bank	47 640	
Accounts receivable	4 220	
Provision for doubtful debts		75
Inventories (1/4/17)	9 940	
Motor vehicle	15 200	
Accumulated depreciation on motor vehicle		5 200
Buildings	90 000	
Land	90 000	
Interim Dividend paid	790	
Investments in government bonds	6 000	
Goodwill	2 330	
Accounts payable		1 730
Provision for income tax		125
Debentures (10%)		5 000
Authorised capital 120 000 shares at \$2		240 000
Unissued capital 10 000 shares at \$2	20 000	
Uncalled capital 20 cents on 110 000	22 000	
Share premium		3 000

Retained profits (1/4/17)		7 300
	358 300	358 300

Additional Information as at 31st March 2018

1. Interest on debenture owing \$200
2. Interest on government bonds due \$130
3. Provision for doubtful debts to be 5% of accounts receivable
4. Provision for income tax \$13 000
5. Provision for dividend 10% on paid up capital
6. Amortisation of goodwill \$400
7. Transfer \$2 000 to general reserve
8. Depreciate motor vehicle at 10% on cost
9. Inventories \$8 000

Required:

From the information given, prepare:

- a. Statement of Financial Performance for the year ended 31st March 2018.
- b. Profit and Loss Appropriation Statement for the year ended 31st March 2018.
- c. Statement of Financial Position as at 31st March 2018.

a. Vula Company Limited			
Statement of Financial Performance for the year ended 31st March 2018			
	\$	\$	\$
Sales		95 000	
Less Sales Returns		220	94 780
Less Cost of Goods Sold			
Opening stock		9 940	
Purchases	22 820		
Less Purchase Returns	80	22 740	
Goods available for sale		32 680	
Less Closing Stock		8 000	
Cost of Goods Sold			24 680
Gross Profit			70 100
Add Other Income			
Discount Revenue		90	
Interest on government bonds (700 + 130)		830	920
			71 020
Less Expenses			
Selling and Distribution Expenses			
Sales – salaries	18 000		
Advertising	1 000		
Cartage on sales	440	19 440	
Administrative Expenses			
Office expenses	2 460		
Insurance	1 050		
Depreciation on motor vehicles	1 520		
Cell Phone Expenses	720		
Directors fees	2 500		

Amortisation of Goodwill	400	8 650	
Financial Expenses			
Bad debts	100		
Interest on debentures (300 + 200)	500		
Discount expenses	70		
Doubtful debts	136	806	28 896
			42124
Less Other Expenses			
Loss by Flood			500
Net Profit Before Tax			41624
Income Tax (Additional Info)		13 000	
Less Overprovision for Income Tax		125	12 875
Net Profit After Tax			28 749

b. Vula Company Limited		
Profit and Loss Appropriation Statement for the year ended 31st March 2018		
	\$	\$
Balance	7 300	
Add Net Profit after tax	28 749	36 049
Less Final Dividend (198 000 x 0.1) - 790	19 010	
Interim Dividend	790	
General Reserve (Transfer amount only)	2 000	21 800
Balance 31 st March 2018 (will be transferred to balance sheet)		14 249

c. Vula Company Limited			
Statement of Financial Position as at 31st March 2018			
	\$	\$	\$
Current Assets			
Cash at bank		47 640	
Accounts receivable	4 220		
Less provision for doubtful debts	211	4 009	
Inventories		8 000	
Interest on Government Bonds due		130	59 779
Add Non-Current Assets			
Add Investments			
Investment in government bonds			6000
Add Fixed Assets			
Motor vehicles	15 200		
Less Accumulated Depreciation (5 200 + 1 520)	6 720	8 480	
Land		90 000	
Building		90 000	188 480
Add Intangible Assets			
Goodwill (2 330 – 400)			1 930
Total Assets			256 189

Less Current Liabilities			
Accounts payable		1 730	
Interest on debenture owing		200	
Provision for income tax		13 000	
Provision for final dividend		19 010	33 940
Less Non-Current liabilities			
Debentures (10%)			5 000
Net Assets			217 249
<u>Shareholders' Equity</u>			
Authorised capital		240 000	
Less Unissued capital		20 000	
Issued and paid up capital		220 000	
Less uncalled capital		22 000	
Called- up and paid-up capital		198 000	
<u>Add Reserves</u>			
Share premium		3 000	
General reserve (0 + 2000)		2 000	
Profit and loss appropriation		14 249	
Total Shareholders Fund			217 249

Refer to the notes and example given above and solve the following Activities:

Activity 3.3.2 (Ref: MOE Text Year 13 Accounting)

Trial Balance of Fleet Company (extract) as at 31st March 2018		
	Debit (\$)	Credit (\$)
Profit and Loss Appropriation (01/04/2018)	420	
Provision for taxation (over provision)		245
Inventories (1 st April 2017)	9 220	
Purchases	33 450	
Purchases Returns		800
Rent on premises	6 500	
Power and lighting	1 380	
Customs duty	2 460	
Office salaries	12 620	
Audit fees	760	
Repairs to motor vehicles	1 870	
Interest on debentures	3 000	
Discount revenue		320
Sales		110 000
Sales returns	900	
Commission revenue		320
Directors' fees	3 900	
Interim dividend paid	8 000	
Goodwill	10 000	

Adjustments necessary at 31st March 2018

1. Provide for income tax \$7 000
2. Interest on debentures accrued \$2500
3. Provision for doubtful debts to be created \$190
4. Provision for final dividend \$10 000
5. Write off goodwill \$2000
6. Inventories at 31st March 2018 \$12 300

Required:

Use the information provided to prepare:

- a. General journal entries for adjustments. (**Hint: Refer to your Text book pg. 102 – 105**)
- b. Statement of Financial Performance of Fleet Company for the year ended 31st March 2018. (**Hint: Refer to the format provided**)
- c. Profit and Loss Appropriation Statement of Fleet Company for the year ended 31st March 2018. (**Hint: Refer to the format/ example provided**)

We will discuss the above activities in the next week's lesson.