

# 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*).

<b>Treatment of Items in the Final Accounts</b>		
<b>Item</b>	<b>Classification</b>	<b>Final Account to Record</b>
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
<b>Dividends</b> (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)*

<b>Reserves-</b> are part of profits kept by the business for a purpose of expansion	
<b>Revenue Reserves</b> (For e.g. specific reserves/ General reserves)	<b>Capital Reserves</b> (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	
<b>Less Sales Returns</b>		xx	xx
<b>Less Cost of Goods Sold</b>			
Opening stock		xx	
<b>Add Purchases</b>	x		
<b>Less Purchase returns</b>	x	xx	
Goods made Available for Sale		xx	
<b>Less Closing Stock</b>		xx	xx
<b>Gross Profit or Loss</b>			<b>xx</b>
<b>Add Other Income</b>			
Discount revenue		xx	
Interest on Government Bonds		xx	xx
			xx
<b>Less Expenses</b>			
<b>Selling and Distribution Expenses</b>			
Sales – salaries	x		
Advertising	x		
Cartage on sales	x	xx	
<b>General and Administrative Expenses</b>			
Office expenses	x		
Insurance	x		
Depreciation on Motor Vehicles	x		
Audit Fees	x		
Directors Fees	x		
Amortisation of preliminary expenses	x	xx	
<b>Financial Expenses</b>			
Bad debts	x		
Interest on debentures	x		
Discount expenses	x		
Doubtful debts	x	xx	xx
			xx
<b>Less Other Expenses</b>			
Burglary			xx
Net Profit Before Tax			xxx
Income Tax <i>(Net profit before tax x Tax rate)</i>		xx	
<b>Less Over-Provision for Income Tax/Add Under-Provision for income tax</b>		xx	xx
<b>Net Profit or Loss after tax</b>			<b>xxx</b>

## FORMAT OF THE PROFIT AND LOSS APPROPRIATION STATEMENT

..... Company Limited <b>Profit and Loss Appropriation Statement for the year ended .....</b>		
	\$	\$
Balance	x	
<b>Add</b> Net Profit <b>after</b> tax	x	xxx
<b>Less</b> 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)		<b>xxx</b>

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

### Illustrative Example

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

<b>Vula Company Ltd</b>		
<b>Trial Balance as at 31<sup>st</sup> March 2018</b>		
	\$	\$
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
	<b>358 300</b>	<b>358 300</b>

**Additional Information as at 31<sup>st</sup> 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 31<sup>st</sup> March 2018.
- b. Profit and Loss Appropriation Statement for the year ended 31<sup>st</sup> March 2018.
- c. Statement of Financial Position as at 31<sup>st</sup> March 2018.

<b>a. Vula Company Limited</b>			
<b>Statement of Financial Performance for the year ended 31<sup>st</sup> March 2018</b>			
	\$	\$	\$
Sales		95 000	
<b>Less Sales Returns</b>		220	94 780
<b>Less Cost of Goods Sold</b>			
Opening stock		9 940	
Purchases	22 820		
<b>Less Purchase Returns</b>	80	22 740	
Goods available for sale		32 680	
<b>Less Closing Stock</b>		8 000	
Cost of Goods Sold			24 680
Gross Profit			<b>70 100</b>
<b>Add Other Income</b>			
Discount Revenue		90	
Interest on government bonds (700 + 130)		830	920
			71 020
<b>Less Expenses</b>			
<b>Selling and Distribution Expenses</b>			
Sales – salaries	18 000		
Advertising	1 000		
Cartage on sales	440	19 440	
<b>Administrative Expenses</b>			
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	
<b>Financial Expenses</b>			
Bad debts	100		
Interest on debentures (300 + 200)	500		
Discount expenses	70		
Doubtful debts	136	806	28 896
			42124
<b>Less Other Expenses</b>			
Loss by Flood			500
Net Profit Before Tax			41624
Income Tax (Additional Info)		13 000	
<b>Less</b> Overprovision for Income Tax		125	12 875
<b>Net Profit After Tax</b>			<b>28 749</b>

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

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

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

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

**Activity 3.3.2 (Ref: MOE Text Year 13 Accounting)**

<b>Trial Balance of Fleet Company (extract) as at 31<sup>st</sup> March 2018</b>		
	<b>Debit (\$)</b>	<b>Credit (\$)</b>
Profit and Loss Appropriation (01/04/2018)	420	
Provision for taxation (over provision)		245
Inventories (1 <sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> 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 31<sup>st</sup> March 2018. (**Hint: Refer to the format provided**)
- c. Profit and Loss Appropriation Statement of Fleet Company for the year ended 31<sup>st</sup> March 2018. (**Hint: Refer to the format/ example provided**)

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