

**SUGGESTED ANSWER FOR QUESTION FROM PREVIOUS ARTICLE**

**GENERAL LEDGER OF STUDENT LTD**

**BALANCE SHEET ACCOUNT SECTION**

**Ordinary Share Capital B1 Cr**

20.6 Feb 28	Balance	c/d	600 000	-	20.5 Mar 1	Balance	b/d	400 000	-
					June 30	Bank	CRJ	200 000	-
			600 000	-				600 000	-

**Retained Income B3**

20.6 Feb 28	Appropriation a/c	GJ	20 000	-	20.5 Mar 1	Balance	b/d	20 000	-
					20.6 Feb 28	Appropriation a/c	GJ	36 000	-

**SARS - Income Tax B6**

20.5 Mar 9	Bank	CPJ	8 000	-	20.5 Mar 1	Balance	b/d	8 000	-
Aug 31	Bank	CPJ	20 000	-	20.6 Feb 28	Income Tax	GJ	29 000	-
20.6 Feb 28	Bank	CPJ	20 000	-		Balance	c/d	11 000	-
			40 000	-				40 000	-
Mar 1	Balance	b/d	11 000	-					

**NOMINAL ACCOUNT SECTION**

**Dividends on Ordinary Shares N15 Cr**

20.5 Sep 1	Bank	CPJ	25 000	-	20.6 Feb 28	Appropriation a/c	GJ	55 000	-
20.6 Feb 28	Shareholders for dividends	GJ	30 000	-			GJ	36 000	-
			55 000	-				55 000	-

**FINAL ACCOUNT SECTION**

**Appropriation Account F3 Cr**

20.6 Feb 28	Income Tax	GJ	29 000	-	20.6 Feb 28	Profit & Loss a/c	GJ	100 000	-
	Dividends on Ordinary Shares	GJ	55 000	-		Retained Income (Beginning)	GJ	20 000	-
	Retained Income (End)	GJ	36 000	-					
			120 000	-				120 000	-

**ADDITIONAL WORKINGS**

INCOME TAX: 100 000 X 29% = 29 000      300 000 SHARES X 0.10 = 30 000

**Lo1: Financial Information**

**AS5: Prepare Final Accounts and Financial Statements, Analyse and interpret financial statements of a company.**

**LEARNING OUTCOMES**

The learner demonstrates knowledge And understanding and application of:

- The income statement
- The balance sheet and supporting notes
- Advanced accumulated depreciation
- The financial impact of HIV/Aids on companies

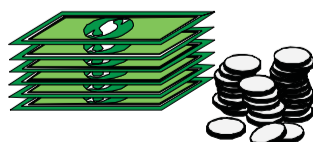
**RECOGNITION OF PRIOR KNOWLEDGE**

- Do you remember the financial statements of sole traders and partnerships
- What are the differences between the financial statements of a sole trader and a partnership

**Introduction**

The annual financial statements consist of the following:

- An income statement
- A balance sheet with supporting notes
- A cash flow statement
- Auditors report
- A directors' report



These annual financial statements have to be submitted at least once a year to the shareholders and the government, i.e. to the Receiver of Revenue and the Registrar of Companies. The audited financial statements must be sent to every member of the company at least 21 days before the annual general meeting, and to all persons entitled to receive notices of annual general meetings.

**The Director's Report**

The director's report explains and adds detail to the figures of the financial statements. It deals with matters relevant to a better understanding of the state of affairs of the company. Schedule 4 of the Act contains instructions regarding the minimum information requirements of the directors' report.

**The Auditor's Report**

The auditor's report is a report to the members of the company. It is evidence that the financial statements were checked and that the auditor is indeed satisfied that the financial position and the financial results of the company are fairly presented in the

**The Financial Statements of a Public Company**

**The Income Statement**

We only deal with the income statement and balance sheet of public companies. The format of the income statement for sole traders, partnerships and public companies is exactly the same. This statement is drawn up using the nominal accounts section of the trial balance and the given adjustments. The only difference in the statements is that a public company is an artificial legal person and must pay income tax.

**Differences between the income statements of sole traders, partnerships and public companies**

Sole Traders and partnerships	Public Companies
Sales (net)	Turnover
Less: Cost of Sales	Less: Cost of Sales
Gross Profit	Gross Profit
Add: Other Income	Add: Other income
Gross Income	Gross income
Less: Operating expenses	Less: Operating expenses
Operating profit	Operating profit
Interest Income	Interest income
Profit before interest expense	Profit before interest expense
Interest expense	Interest expense
Net profit (loss) for the year	Net profit (loss) for the year
	Taxation/Income tax
	Net profit after tax for the year

**NOTE**

The interim dividend declared and paid is recorded in the pre-adjustment trial balance of a public company as ordinary share dividends in the nominal accounts section. It is an expense. However, it is not recorded in the income statement but in the supporting note of the retained income.

**The balance sheet and supporting notes**

The only difference in the format of the balance sheet and supporting notes for sole traders, partnerships and public companies is the owner's equity section. The balance sheet account section of the pre-adjustment trial balance and the given adjustments are used to draw up the balance sheet and supporting notes.

**EXAMPLE**

**Differences between the balance sheet and notes of sole traders, partnerships and public companies**

BALANCE SHEET AS AT 30 JUNE 20.9							
Sole Traders		Partnership			Public Company		
Owner's Equity:	Note		Equity:	Note		Share Capital & Reserves	Note
Owner's Equity	7	X	Capital: A	7	X	Ordinary Share Capital	7
			Capital: B	7	X	Share premium	8
			Current Account: A	8	X	Distributable Reserves	9
			Current Account: B	8	X	<b>Shareholders' Equity</b>	<b>X</b>
			<b>Equity</b>	<b>X</b>			

Now, Let us carefully examine the layout of the following notes dealing with the equity of a public company.

NOTES TO BALANCE SHEET: PUBLIC COMPANY		
<b>7 Ordinary Share Capital</b>		
<b>Authorised</b>		
_____ ordinary shares at R _____ each		X
<b>Issued</b>		
_____ ordinary shares of R _____ each at last day of previous year		X
_____ ordinary shares of R _____ each during the year		X
_____ ordinary shares of R _____ each at the end of current year		X
<b>8 Share premium</b>		
Balance at the last day of previous year		X
_____ ordinary shares issued at a premium of R _____ each		X
Balance on the last day of the current year		X
<b>9 Distributable reserves/Retained income</b>		
Balance on the last day of the previous year		X
Net profit after tax for the year		X
Distribution of ordinary share dividends		(X)
Paid		(X)
Recommended (Final)		(X)
Balance on the last day of the current year		X