



FAC1601

ACCOUNTING REPORTING

UNISA college of economic and management sciences

STUDY UNIT 6

COMPANIES

UNISA university of south africa

COMPANIES

A company is a legal entity with limited liability, unlimited lifespan and can accumulate large amounts of capital.

A company with share capital can either be a:

- Private company - "(Proprietary)" Limited or (Pty) Ltd:
cannot invite the public to subscribe for its shares,
but can sell its shares if approved by the directors.
- Public company - "Limited" or Ltd:
can invite the general public to subscribe for its
shares.

Equity financing:

By buying shares of a company an investor acquires equity in the company.

ACCOUNTING TERMINOLOGY

- **Authorised share capital:**

This is a maximum number of shares that a company may issue (sell).

- **Issued share capital:**

This comprises the **ACTUAL value of the shares issued (sold)**.

- **Classes of shares:**

- **Ordinary shares** – shareholder has voting rights; may receive a dividend.
- **Preference shares** – shareholders do not have voting rights (if normal circumstances). Receives a fixed dividend percentage. Has priority over ordinary shares with regard to dividends and repayment of capital on liquidation.

PAR VALUE (PV) and NO PAR VALUE (NPV) SHARES

The **par value (PV)** of a share is a nominal (Rand) value assigned to the shares on registration (not necessarily an indication of the market value).

– referred to as **share capital**.

No par value shares (NPV) are shares which are not assigned a nominal value on formation of the company.

– referred to as **stated share capital**.

Share premium is the difference between the par value and the value at which the share was issued.

Each type of share may only be PV or NPV shares.

Companies are permitted to convert from PV to NPV.

ACCOUNTING FOR THE ISSUE OF SHARES

1. **Receipt of money – payment must accompany the application for the subscription of shares:**

Dr: Bank account

Cr: Application and allotment: (class of share) account

2. **Upon allotment:**

Dr: Application and allotment: (class of share) account

Cr: Share capital (PV) or Stated capital (NPV) account

3. **When repaying oversubscribed applications:**

Dr: Application and allotment (class of share) account

Cr: Bank account

4. **Subscribers to the memorandum**

The first issue of shares must always be to the founders of the company

Example 1: Issue of PV shares

Busy-Bee Ltd was registered on 1 March 20.1, with an authorised share capital of 5 000 ordinary shares of R1 each and 1 000 8% preference shares of R2 each.

The founders subscribed and paid for 1 000 ordinary shares at par. 4 000 ordinary shares and 1 000 preference shares were offered at par to the public on 1 May 20.1. The full offering was taken up and allotted on 31 May 20.1. (Record only the transactions from 1 to 31 May 20.1.)

20.1 May 31	Bank	R	R
	Application and allotment: Ordinary shares	6 000	4 000
	Application and allotment: Preference shares		2 000
	Receipt of application money		

Example 1: Issue of PV shares (continued)

Busy-Bee Ltd was registered on 1 March 20.1, with an authorised share capital of 5 000 ordinary shares of R1 each and 1 000 8% preference shares of R2 each.

The founders subscribed and paid for 1 000 ordinary shares at par. 4 000 ordinary shares and 1 000 preference shares were offered at par to the public on 1 May 20.1. The full offering was taken up and allotted on 31 May 20.1. (Record only the transactions from 1 to 31 May 20.1.)

20.1 May 31	Bank	R	R
	Application and allotment: Ordinary shares	6 000	4 000
	Application and allotment: Preference shares		2 000
	Receipt of application money		
	Application and allotment: Ordinary shares	4 000	4 000
	Ordinary share capital		
	Allotment of 4 000 ordinary shares		

Example 1: Issue of PV shares (continued)

Busy-Bee Ltd was registered on 1 March 20.1, with an authorised share capital of 5 000 ordinary shares of R1 each and 1 000 8% preference shares of R2 each.

The founders subscribed and paid for 1 000 ordinary shares at par. 4 000 ordinary shares and 1 000 preference shares were offered at par to the public on 1 May 20.1. The full offering was taken up and allotted on 31 May 20.1. (Record only the transactions from 1 to 31 May 20.1.)

20.1 May 31	Bank	R	R
	Application and allotment: Ordinary shares	6 000	4 000
	Application and allotment: Preference shares		2 000
	Receipt of application money		
	Application and allotment: Ordinary shares	4 000	4 000
	Ordinary share capital		
	Allotment of 4 000 ordinary shares		
	Application and allotment: Preference shares	2 000	2 000
	Preference share capital		
	Allotment of 1 000 preference shares		

Example 2: Issue of shares at a premium

Busy-Bee Ltd was registered on 1 March 20.1, with an authorised share capital of 5 000 ordinary shares of R1 each and 1 000 8% preference shares of R2 each. The founders subscribed and paid for 1 000 ordinary shares at par. On 1 May 20.1 Busy-Bee Ltd offered 4 000 ordinary shares at R1,25 each and 1 000 preference shares at R2 each to the public. The full offering was taken up and allotted on 31 May 20.1. (Record only the transactions from 1 to 31 May 20.1.)

20.1 May 31	Bank	R	R
	Application and allotment: Ordinary shares	7 000	5 000
	Application and allotment: Preference shares		2 000
	Receipt of application money		

Example 2: Issue of shares at a premium (continued)

Busy-Bee Ltd was registered on 1 March 20.1, with an authorised share capital of 5 000 ordinary shares of R1 each and 1 000 8% preference shares of R2 each. The founders subscribed and paid for 1 000 ordinary shares at par. On 1 May 20.1 Busy-Bee Ltd offered 4 000 ordinary shares at R1,25 each and 1 000 preference shares at R2 each to the public. The full offering was taken up and allotted on 31 May 20.1. (Record only the transactions from 1 to 31 May 20.1.)

20.1 May 31	Bank	R	R
	Application and allotment: Ordinary shares	7 000	5 000
	Application and allotment: Preference shares		2 000
	Receipt of application		
	Application and allotment: Ordinary shares	5 000	4 000
	Ordinary share capital		
	Share premium		1 000
	Allotment of 4 000 ordinary shares		

Example 2: Issue of shares at a premium (continued)

Busy-Bee Ltd was registered on 1 March 20.1, with an authorised share capital of 5 000 ordinary shares of R1 each and 1 000 8% preference shares of R2 each. The founders subscribed and paid for 1 000 ordinary shares at par. On 1 May 20.1 Busy-Bee Ltd offered 4 000 ordinary shares at R1,25 each and 1 000 preference shares at R2 each to the public. The full offering was taken up and allotted on 31 May 20.1. (Record only the transactions from 1 to 31 May 20.1.)

20.1 May 31	Bank	R	R
	Application and allotment: Ordinary shares	7 000	5 000
	Application and allotment: Preference shares		2 000
	Receipt of application money		
	Application and allotment: Ordinary shares	5 000	4 000
	Ordinary share capital		
	Share premium		1 000
	Application and allotment: Preference shares	2 000	2 000
	Preference share capital		
	Allotment of 1 000 Preference shares		

Example 3: Issue of NPV shares

Busy-Bee Ltd was registered on 1 March 20.1, with an authorised share capital of 5 000 NPV ordinary shares and 1 000 NPV 8% preference shares. The founders subscribed and paid R1 per share for 1 000 ordinary shares. On 15 May 20.1 4 000 ordinary shares were offered at R1.50 per share and 1 000 preference shares at R0.90 per share. The full offering was taken up and allotted on 31 May 20.1.

(Record only the transactions from 15 to 31 May 20.1.)

20.1		R	R
May 31	Bank	6 900	
	Application and allotment: Ordinary shares		6 000
	Application and allotment: Preference shares		900
	<i>Receipt of application money</i>		

Example 3: Issue of NPV shares (continued)

Busy-Bee Ltd was registered on 1 March 20.1, with an authorised share capital of 5 000 NPV ordinary shares and 1 000 NPV 8% preference shares. The founders subscribed and paid R1 per share for 1 000 ordinary shares. On 15 May 20.1 4 000 ordinary shares were offered at R1.50 per share and 1 000 preference shares at R0.90 per share. The full offering was taken up and allotted on 31 May 20.1. (Record only the transactions from 15 to 31 May 20.1.)

20.1		R	R
May 31	Bank	6 900	
	Application and allotment: Ordinary shares		6 000
	Application and allotment: Preference shares		900
	<i>Receipt of application money</i>		
	Application and allotment: Ordinary shares	6 000	
	Stated capital: Ordinary shares		6 000
	Allotment of 4 000 NPV ordinary shares		

Example 3: Issue of NPV shares (continued)

Busy-Bee Ltd was registered on 1 March 20.1, with an authorised share capital of 5 000 NPV ordinary shares and 1 000 NPV 8% preference shares.

The founders subscribed and paid R1 per share for 1 000 ordinary shares.

On 15 May 20.1 4 000 ordinary shares were offered at R1.50 per share and 1 000 preference shares at R0.90 per share. The full offering was taken up and allotted on 31 May 20.1. (Record only the transactions from 15 to 31 May 20.1.)

20.1		R	R
May 31	Bank	6 900	
	Application and allotment: Ordinary shares		6 000
	Application and allotment: Preference shares		900
	<i>Receipt of application</i>		
	Application and allotment: Ordinary shares	6 000	
	Stated capital: Ordinary shares		6 000
	<i>Allotment of 4 000 NPV ordinary shares</i>		
	Application and allotment: Preference shares	900	
	Stated capital: 8% Preference share capital		900
	<i>Allotment of 1 000 NPV pref. shares</i>		

UNDERWRITING OF SHARES

Underwriting is a guarantee or assurance given by the underwriter (usually a merchant bank), to the company offering shares, that shares offered to the public will be subscribed in full.

If the shares underwritten are not taken up in full by the public, the underwriter is liable for the unsubscribed shares.

UNDERWRITING OF SHARES**Commission payable to the underwriter:**

The first step is to record the commission payable to create the liability that must be paid after the shares were issued;

The commission is calculated as a % of the R-value of the total issue;

Commission expense payable to the underwriter can be written off against the share premium account.

UNDERWRITING OF SHARES

Shaka Ltd was registered on 1 January 20.5 with the following authorised share capital:

100 000 no par value (NPV) ordinary shares

50 000 10% Preference par value (PV) shares of R1 each

The founders subscribed and paid R1 per share for 1 000 ordinary shares.

On 1 May 20.1 Shaka Ltd offered 20 000 ordinary shares to the public at R2.50 each. The offer was underwritten by Zulu Merchant Bank at 5% commission. Applications for 16 000 shares were received and all the transactions finalised on 31 May 20.1. (Record only the transactions from 15 to 31 May 20.1.)

20.1		R	R
May 1	Underwriters' commission	2 500	
	Zulu Merchant Bank		2 500
	<i>Commission payable on share issue</i>		

UNDERWRITING OF SHARES

Shaka Ltd was registered on 1 January 20.5 with the following authorised share capital:

100 000 NPV ordinary shares; 50 000 10% Preference PV shares of R1 each
The founders subscribed and paid R1 per share for 1 000 ordinary shares.

Shaka Ltd offered 20 000 ordinary shares to the public at R2,50 each. The offer was underwritten by Zulu Merchant Bank at 5% commission. Applications for 16 000 shares were received and all the transactions finalised on 31 May 20.1. (Record only the transactions from 15 to 31 May 20.1.)

		R	R
20.1			
May 1	Underwriters' commission Zulu Merchant Bank <i>Commission payable on share issue</i>	2 500	2 500
31	Bank Application and allotment: Ordinary shares Receipt of application money	40 000	40 000

UNDERWRITING OF SHARES

Shaka Ltd was registered on 1 January 20.5 with the following authorised share capital:

100 000 NPV ordinary shares; 50 000 10% Preference PV shares of R1 each
The founders subscribed and paid R1 per share for 1 000 ordinary shares.

Shaka Ltd offered 20 000 ordinary shares to the public at R2,50 each. The offer was underwritten by Zulu Merchant Bank at 5% commission. Applications for 16 000 shares were received and all the transactions finalised on 31 May 20.1. (Record only the transactions from 15 to 31 May 20.1.)

		R	R
20.1			
May 1	Underwriters' commission Zulu Merchant Bank <i>Commission payable on share issue</i>	2 500	2 500
31	Bank Application and allotment: Ordinary shares <i>Receipt of application money for 16 000 shares</i>	40 000	40 000
	Application and allotment: Ordinary shares Stated capital: Ordinary shares Allotment of 16 000 ordinary shares.....	40 000	40 000

UNDERWRITING OF SHARES

Shaka Ltd was registered on 1 January 20.5 with the following authorised share capital:
100 000 NPV ordinary shares; 50 000 10% Preference PV shares of R1 each

The founders subscribed and paid R1 per share for 1 000 ordinary shares.

Shaka Ltd offered 20 000 ordinary shares to the public at R2,50 each. The offer was underwritten by Zulu Merchant Bank at 5% commission. Applications for 16 000 shares were received and all the transactions finalised on 31 May 20.1. (Record only the transactions from 15 to 31 May 20.1.)

		R	R
20.1			
May 1	Underwriters' commission Zulu Merchant Bank <i>Commission payable on share issue</i>	2 500	2 500
31	Bank Application and allotment: Ordinary shares <i>Receipt of application money for 16 000 shares</i>	40 000	40 000
	Application and allotment: Ordinary shares Stated capital: Ordinary shares <i>Allotment of 16 000 ordinary shares.....</i>	40 000	40 000
	Zulu Merchant Bank Stated capital: Ordinary shares Allotment of 4 000 ordinary shares	10 000	10 000

UNDERWRITING OF SHARES

Shaka Ltd offered 20 000 ordinary shares to the public at R2,50 each. The offer was underwritten by Zulu Merchant Bank at 5% commission. Applications for 16 000 shares were received and all the transactions finalised on 31 May 20.1. (Record only the transactions from 15 to 31 May 20.1.)

		R	R
20.1			
May 1	Underwriters' commission Zulu Merchant Bank <i>Commission payable on share issue</i>	2 500	2 500
31	Bank Application and allotment: Ordinary shares <i>Receipt of application money for 16 000 shares</i>	40 000	40 000
	Application and allotment: Ordinary shares Stated capital: Ordinary shares <i>Allotment of 16 000 ordinary shares.....</i>	40 000	40 000
	Zulu Merchant Bank Stated capital: Ordinary shares <i>Allotment of 1 000 ordinary shares</i>	10 000	10 000
	Bank Zulu Merchant Bank Balance paid by Zulu Merchant Bank	7 500	7 500

OVERSUBSCRIPTION OF SHARES

On 1 June 20.5 Shaka Ltd offered 30 000 10% preference shares (R1 PV shares) to the public at R1,50 each. The offer was not underwritten. Application for 35 000 shares were received.

On 30 June 20.5 shares were allotted and excess application money repaid.

		R	R
20.5			
Jun 30	Bank Application and allotment: 10% Preference shares Receipt of money for 35 000 shares...	52 500	52 500

OVERSUBSCRIPTION OF SHARES (continued)

On 1 June 20.5 Shaka Ltd offered 30 000 10% preference shares to the public at R1,50 each. The offer was not underwritten. Application for 35 000 shares were received. On 30 June 20.5 shares were allotted and excess application money repaid.

		R	R
20.5			
Jun 30	Bank Application and allotment: 10% Preference shares <i>Receipt of money for 35 000 shares...</i>	52 500	52 500
	Application and allotment: 10% Preference shares 10% Preference share capital Share premium Allotment of 30 000 preference shares.....	45 000	30 000 15 000

OVERSUBSCRIPTION OF SHARES (continued)

On 1 June 20.5 Shaka Ltd offered 30 000 10% preference shares to the public at R1,50 each. The offer was not underwritten. Application for 35 000 shares were received. On 30 June 20.5 shares were allotted and excess application money repaid.

		R	R
20.5			
Jun 30	Bank	52 500	
	Application and allotment: 10% Preference shares		52 500
	Receipt of money for 35 000 shares...		
	Application and allotment: 10% Preference shares	45 000	
	10% Preference share capital		30 000
	Share premium		15 000
	Allotment of 30 000 preference shares.....		
	Application and allotment:		
	10% Preference shares	7 500	
	Bank		7 500
	Refund to unsuccessful applicants		

ISSUE OF CAPITALISATION OF SHARES

A bonus issue (no payment is received) of fully paid shares to shareholders. Distributable reserves are utilised – only a book entry is made.

Accounting procedure to record capitalisation of shares:

Where capitalisation issue is from **retained earnings** –

Dr: Retained earnings
Cr: Ordinary share capital

Where capitalisation issue is from **share premium** –

Dr: Share premium
Cr: Ordinary share capital

It is assumed the balance of the **share premium** will be utilised first.

ISSUE OF CAPITALISATION SHARES

The following information was obtained from the accounting records of Bandas Ltd at 28 February 20.9:

	R
Ordinary share capital (R0,50 each)	200 000
Share premium	20 000
Retained earnings	70 000

On 1 March 20.9 the directors decided to issue capitalisation shares in the ratio of one share for every four shares already held on 28 February 20.9. The issue must have a minimum effect on retained earnings.

ISSUE OF CAPITALISATION SHARES

The following information was obtained from the accounting records of Bandas Ltd at 28 February 20.9:

	R
Ordinary share capital (R0,50 each)	200 000
Share premium	20 000
Retained earnings	70 000

On 1 March 20.9 the directors decided to issue capitalisation shares in the ratio of one share for every four shares already held on 28 February 20.9. The issue must have a minimum effect on retained earnings.

Calculation:
 $200\,000/0,50 = 400\,000$ shares issued on 28 February 20.9
 $400\,000/4 = 100\,000$ capitalisation shares x R0,50 = R50 000

Bandas Ltd
General Journal

		R	R
20.9			
March 1	Share premium	20 000	

ISSUE OF CAPITALISATION SHARES

The following information was obtained from the accounting records of Bandas Ltd at 28 February 20.9:

	R
Ordinary share capital (R0,50 each)	200 000
Share premium	20 000
Retained earnings	70 000

On 1 March 20.9 the directors decided to issue capitalisation shares in the ratio of one share for every four shares already held on 28 February 20.9. The issue must have a minimum effect on retained earnings.

Bandas Ltd
General Journal

		R	R
20.9			
March 1	Share premium	20 000	
	Retained earnings	30 000	

ISSUE OF CAPITALISATION SHARES

The following information was obtained from the accounting records of Bandas Ltd at 28 February 20.9:

	R
Ordinary share capital (R0,50 each)	200 000
Share premium	20 000
Retained earnings	70 000

On 1 March 20.9 the directors decided to issue capitalisation shares in the ratio of one share for every four shares already held on 28 February 20.9. The issue must have a minimum effect on retained earnings.

Bandas Ltd
General Journal

		R	R
20.9			
March 1	Share premium	20 000	
	Retained earnings	30 000	
	Ordinary share capital		50 000

ISSUE OF CAPITALISATION SHARES

The following information was obtained from the accounting records of Bandas Ltd at 28 February 20.9:

	R
Ordinary share capital (R0,50 each)	200 000
Share premium	20 000
Retained earnings	70 000

On 1 March 20.9 the directors decided to issue capitalisation shares in the ratio of one share for every four shares already held on 28 February 20.9. The issue must have a minimum effect on retained earnings.

Bandas Ltd			
General Journal			
20.9		R	R
March 1	Share premium	20 000	
	Retained earnings	30 000	
	Ordinary share capital		50 000
	<i>Capitalisation issue of one share for every four shares held</i>		

DIVIDENDS

The part of the profit of the company that is distributed to its shareholders is referred to as **dividends**. It can only be paid from profits that are available for distribution.

Dividends on **ordinary shares** are quoted in cents per share while dividends on **preference shares** are quoted as a **fixed percentage** on the nominal value.

Preference shareholders have a **preferential right** to dividends. If a company has issued both preference and ordinary shares, the declaration of dividends on ordinary shares would **imply** that the company is also declaring dividends on preference shares.

ACCOUNTING FOR DIVIDENDS**WHEN DECLARED**

	R	R
Dividends payable	000	
Dividends payable		000

WHEN PAID

	R	R
Dividends payable	000	
Bank		000

EXAMPLE: ACCOUNTING FOR DIVIDENDS

Busy-Bee Ltd is a registered company with an issued share capital of 4 000 ordinary shares of R1,25 each and 1 000 10% preference shares of R1,50 each. On 30 March 20.2 the company declared dividends of R0,20 per share on ordinary shares. Dividends were paid in full on 15 April 20.2.

20.2		R	R
Mar 30	Preference dividends	150	
	Ordinary dividends	800	
	Dividends payable		950
	<i>Declaration of preference and ordinary dividends</i>		

EXAMPLE: ACCOUNTING FOR DIVIDENDS

Busy-Bee Ltd is a registered company with an issued share capital of 4 000 ordinary shares of R1,25 each and 1 000 10% preference shares of R1,50 each. On 30 March 20.2 the company declared dividends of R0,20 per share on ordinary shares. Dividends were paid in full on 15 April 20.2.

20.2		R	R
Mar 30	Preference dividends	150	
	Ordinary dividends	800	
	Dividends payable		950
	<i>Declaration of preference and ordinary dividends</i>		
Apr 15	Dividends payable	950	
	Bank		950
	<i>Payment of dividends to preference and ordinary shareholders</i>		

STUDY UNIT 7**STATEMENT OF CASH FLOWS**

STATEMENT OF CASH FLOWS

A statement of cash flows is a financial statement that shows a business entity's **flow of cash and cash equivalents**.

The presentation of a statement of cash flows is dealt with in **IAS 7** (AC 118).

The **main objective** is to disclose how cash and cash equivalents of a business entity were generated and managed.

CASH FLOWS ARE BASED ON THREE GROUPS OF ACTIVITIES

Operating activities - Principal revenue-producing activities, primarily disclosed in the statement of comprehensive income.

Investing activities - Mainly the acquisition and disposal of non-current assets, primarily disclosed in the non-current asset sections of the statements of financial position.

Financing activities - Activities that result in changes of the equity and borrowings, primarily disclosed in the equity and liabilities sections of the statements of financial position.

The statement is presented in three sections:

Cash flows from **operating** activities

Cash flows from **investing** activities

Cash flows from **financing** activities

A statement of cash flows is usually prepared from the **statement of comprehensive income (current year)**, the **statement of changes in equity (current year)**, and the **statements of financial position (current and previous year)**.

ACCRUAL VERSUS CASH BASIS OF ACCOUNTING

The statement of comprehensive income, changes in equity, and of financial position are prepared on the **accrual basis of accounting**.

In terms of accrual accounting,

income, the sale of non-current assets etc are reported when

earned, and

expenses, the purchase of non-current assets etc when

incurred.

The statement of cash flows is based on the **cash basis of accounting**.

In terms of the cash basis of accounting, **income, the sale of non-current assets etc** are reported when

received, and

expenses, the purchase of non-current assets etc when

paid.

The period when earned or incurred is irrelevant.

CASH FLOWS FROM OPERATING ACTIVITIES

Divided into **two** sections:

First section stops at **cash generated from/(used in) operations**, and is prepared according to either the **direct** or **indirect** method.

Second section stops at **Net cash from/(used in) operating activities**.

Direct method (page 282)

Cash receipts from customers
Cash paid to suppliers and employees

Indirect method (page 282)

Profit for the year (sole proprietor, partnership)/profit before tax (CC)
Add/subtract

non-cash entries (such as depreciation), and
items disclosed after cash generated from/(used in) (such as interest, dividends and tax)

Add/subtract

changes in working capital pertaining to operating activities

CASH GENERATED FROM/(USED IN) OPERATIONS (DIRECT METHOD)

Determination of cash receipts from customers

- Use the income items in the statement of comprehensive income such as revenue and rent earned.
- Assuming that revenue pertains only to sales - where inventory is sold for **CASH**, the **REVENUE** figure shows the cash inflow. Where inventory is sold on credit, or on cash and credit, do the following calculation:

Other income (page 295)

	R
Opening balance - Debtors control (trade debtors)	000
ADD: Revenue	000
	000
LESS: Credit losses (<i>incurred during year</i>)	(00)
Closing balance - Debtors control (trade debtors)	(000)
Cash receipts	000

	R
Income item: Rental income (Statement of comprehensive income - current year)	500
Adjustment regarding previous year (Statement of financial position - previous year)	
Add: Income in arrears – assume R100	100
Subtract: Income received in advance	(-)
Adjustment regarding current year (Statement of financial position - current year)	
Add: Income received in advance	-
Subtract: Income in arrears – assume R20	(20)
Cash receipts during the year	580

Determination of cash paid to suppliers and employees

- Use the expense items in the statement of comprehensive income such as purchases, stationery consumed and salaries.
- With regards to purchases: Where inventory is purchased for **CASH**, the **PURCHASES** figure shows the cash outflow. Where inventory is purchased on credit, or on cash and credit, do the following calculation:

	R
Opening balance - Creditors control (trade creditors)	000
ADD: Purchases	000
	000
LESS: Closing balance - Creditors control (trade creditors)	(000)
Cash paid	000

Other expenses (page 297)

	R
Expense item: Wages (Statement of comprehensive income - current year)	3 000
Adjustment regarding previous year (Statement of financial position - previous year)	
Add: Accrued expenses	-
Subtract: Prepayments – assume R500	(500)
Adjustment regarding current year (Statement of financial position - current year)	
Add: Prepayments – assume R1 000	1 000
Subtract: Accrued expenses	(-)
Cash paid during the year	580

EXAMPLES 1 AND 2
(CASH GENERATED FROM OPERATIONS: DIRECT METHOD)**EXAMPLE 1**

The following information pertains to Unicorn CC:

Extract from the statement of financial position as at 31 December:

	2009 R	2008 R
Current assets		
Inventories	40 600	39 300
Trade receivables (Debtors control - tr. debtors)	69 500	79 500
Prepayments (Insurance)	8 400	3 600
Current liabilities		
Trade and other payables (Creditors control - trade creditors)	34 300	54 300

EXAMPLE 1 (continued)

Extract from the statement of comprehensive income for the year ended 31 December 2009:

	R
Revenue	970 000
Cost of sales	261 600
Credit losses (incurred)	1 500

All sales and purchases are on credit.

REQUIRED:

Disclose the cash receipts from customers in the statement of cash flows of Unicorn CC for the year ended 31 December 2009.

	R
Opening balance - Debtors control (trade debtors)	79 500
ADD: Revenue	970 000
	1 049 500
LESS: Credit losses (<i>incurred</i>)	(1 500)
Closing balance - Debtors control (trade debtors)	(69 500)
Cash receipts from customers	978 500

**UNICORN CLOSE CORPORATION
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 DECEMBER 2009**

CASH FLOWS FROM OPERATING ACTIVITIES	R	
Cash receipts from customers	978 500	

EXAMPLE 2

The following information pertains to Unicorn CC:

Extract from the statement of financial position as at 31 December:

	2009 R	2008 R
Current assets		
Inventories	40 600	39 300
Trade receivables (Debtors control – tr. debtors)	69 500	79 500
Prepayments (Insurance)	8 400	3 600
Current liabilities		
Trade and other payables (Creditors control - trade creditors)	34 300	54 300

EXAMPLE 2 (continued)

Extract from the statement of comprehensive income for the year ended 31 December 2009:

	R
Administrative expenses	111 450
Depreciation	49 850
Salaries	340 000
Fuel and maintenance: Vehicles	70 500
Insurance expenses	17 600
Water and electricity	21 700

REQUIRED:

Disclose the cash paid to suppliers and employees in the statement of cash flows of Unicorn CC for the year ended 31 December 2009. (Purchases = R262 900)

	R
Opening balance - Creditors control (trade creditors)	54 300
ADD: Purchases	262 900
	317 200
LESS: Closing balance - Creditors control (trade creditors)	(34 300)
Cash paid to trade creditors	282 900

Other expenses

	R
Expense item: Insurance expenses (Statement of comprehensive income - current year)	17 600
Adjustment regarding previous year (Statement of financial position - previous year)	
Add: Accrued expenses	-
Subtract: Prepayments	(3 600)
Adjustment regarding current year (Statement of financial position - current year)	
Add: Prepayments	8 400
Subtract: Accrued expenses	(-)
Cash paid during the year	22 400

Cash paid to suppliers and employees

	R
Purchases	282 900
Administrative expenses	111 450
Salaries	340 000
Fuel and maintenance: Vehicles	70 500
Insurance expenses	22 400
Water and electricity	21 700
Cash paid to suppliers and employees	848 950

**UNICORN CLOSE CORPORATION
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 DECEMBER 2009**

CASH FLOWS FROM OPERATING ACTIVITIES	R	
Cash receipts from customers	978 500	
Cash paid to suppliers and employees	(848 950)	
Cash generated from operations	129 550	

**CASH FLOWS FROM OPERATING ACTIVITIES
(INDIRECT METHOD)**

	R
Profit for the year or Profit before tax	000
Non-cash entries	+/-
Items disclosed after cash generated from/(used) in operations	+/-
Changes in working capital pertaining to operating activities	+/-
Cash generated from/(used in) operations	=

Changes in current assets and current liabilities

Decreases in current assets	+
Increases in current assets	-
Decreases in current liabilities	-
Increases in current liabilities	+

**EXAMPLE 3
(CASH GENERATED FROM OPERATIONS: INDIRECT METHOD)**

The following information pertains to Unicorn CC:

Extract from the statement of financial position:

	2009 R	2008 R
Current assets		
Inventories	40 600	39 300
Trade receivables (Debtors control – trade debtors)	69 500	79 500
Prepayments (Insurance)	8 400	3 600
Current liabilities		
Trade and other payables (Creditors control – trade creditors)	34 300	54 300
Distribution to members payable	20 000	-
Current tax payable	17 000	14 100

EXAMPLE 3 (continued)

*Extract from the statement of comprehensive income for the year ended
31 December 2009:*

	R
Administrative expenses	111 450
Profit on sale of available-for-sale financial asset	60 100
Dividend income	30 000
Depreciation	49 850
Salaries	340 000
Fuel and maintenance: Vehicles	70 500
Insurance expenses	17 600
Credit losses	1 500
Water and electricity	21 700
Loss on sale of vehicle	1 800
Interest expense	69 900
Income tax expense	34 020

The profit before tax = R114 200

REQUIRED: Disclose the cash generated from operations-section in the statement of cash flows of Unicorn CC for the year ended 31 December 2009 according to the indirect method.

CASH FLOWS FROM OPERATING ACTIVITIES	R	
Profit before tax	114 200	
Add: Depreciation	49 850	
Loss on sale of vehicle	1 800	
Interest expense	69 900	
Subtract: Dividend income	(30 000)	
Profit on available-for-sale financial asset	(60 100)	
	145 650	
Increase in inventories	(1 300)	
Decrease in trade debtors	10 000	
Increase in prepayments	(4 800)	
Decrease in trade creditors	(20 000)	
Cash generated from operations	129 550	
Comment: credit losses incurred can be omitted with indirect method - see page 299		

CASH FLOWS FROM OPERATING ACTIVITIES (after cash generated from/(used in) operations)		R
Cash generated from/(used in) operations		000
Dividends received		000
Interest received		000
Interest paid		(000)
Income tax paid (CC's)		(000)
Drawings (partnerships & sole proprietors)		(000)
Distribution to members paid (CC's)		(000)
Proceeds from the sale of financial assets at fair value - p 282		000
Acquisition of financial assets at fair value		(000)
Net cash from/(used in) operating activities		

EXAMPLE 4

(CASH FLOWS FROM OPERATING ACTIVITIES – AFTER CASH GENERATED FROM OPERATIONS)

The following information pertains to Unicorn CC:

<i>Extract from the statement of financial position:</i>		
	2009 R	2008 R
Current liabilities		
Trade and other payables (Creditors control – tr.cr.)	34 300	54 300
Distribution to members payable	20 000	-
Current tax payable	17 000	14 100

EXAMPLE 4 (continued)

Extract from the statement of comprehensive income for the year ended 31 December 2009:

	R
Dividend income	30 000
Income tax expense	34 020
Interest expense	69 900

REQUIRED:

Disclose the section after the cash generated from operations in the cash flows from operating activities-section in the statement of cash flows of Unicorn CC for the year ended 31 December 2009.

UNICORN CLOSE CORPORATION
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 DECEMBER 2009

CASH FLOWS FROM OPERATING ACTIVITIES	R	
Cash generated from operations	129 550	
Dividends received	30 000	

UNICORN CLOSE CORPORATION
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 DECEMBER 2009

CASH FLOWS FROM OPERATING ACTIVITIES	R	
Cash generated from operations	129 550	
Dividends received	30 000	
Interest paid	(69 900)	

**UNICORN CLOSE CORPORATION
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 DECEMBER 2009**

CASH FLOWS FROM OPERATING ACTIVITIES	R	
Cash generated from operations	129 550	
Dividends received	30 000	
Interest paid	(69 900)	
Income tax paid	(31 120)	
R(34 020 + 14 100 – 17 000)		

**UNICORN CLOSE CORPORATION
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 DECEMBER 2009**

CASH FLOWS FROM OPERATING ACTIVITIES	R	
Cash generated from operations	129 550	
Dividends received	30 000	
Interest paid	(69 900)	
Income tax paid	(31 120)	
R(34 020 + 14 100 – 17 000)		
Distribution to members paid	-	
R(20 000 – 20 000)		

**UNICORN CLOSE CORPORATION
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 DECEMBER 2009**

CASH FLOWS FROM OPERATING ACTIVITIES	R	R
Cash generated from operations	129 550	
Dividends received	30 000	
Interest paid	(69 900)	
Income tax paid	(31 120)	
Distribution to members paid	-	
Net cash from operating activities		58 530

CASH FLOWS FROM INVESTING ACTIVITIES

- For identification of items, use the **statements of financial position**, mainly the non-current asset sections.
- Once an item is identified, **determine** whether there was a **change** in the amounts from the previous to the current year.

With regard to additions:

- If **cost prices** are given: deduct the closing balances from each other.
- If **carrying amounts** are given: add the depreciation for the year to the carrying amount at the end of the current year, then subtract the carrying amount at the end of the previous year.
- If **PPE note** is given: refer to the additions.

With regard to disposals:

- If **cost prices** are given: deduct the closing balances from each other.
- If **carrying amounts (usually for a group of assets) are given, for example for vehicles**, add the depreciation of the vehicles for the year, the carrying amount of the asset disposed during the year, and the carrying amount at the end of the current year, **then subtract** the carrying amount at the end of the previous year.
- If **PPE note** is given, refer to the disposals (which are disclosed at carrying amount).

3. If there is a difference, analyse the difference and determine what pertained to **cash flow**

Remember that:

- We disclose the proceeds and acquisition prices paid as cash flows.
- Profits/losses on sale of investing activity assets do not equal the proceeds.
- A selling price is equal to the proceeds when the sale was for cash. When it was on credit, only the amounts received are proceeds.
- Selling price = Carrying amount + Profit (or – Loss)

Analyse by checking the additional information.

EXAMPLES 5 – 8
(CASH FLOWS FROM INVESTING ACTIVITIES)

EXAMPLE 5

The following information is extracted from the accounting records of Unicorn CC as at 31 December, the end of the financial year:

	2009	2008
	R	R
Property, plant and equipment (Land and buildings)	500 000	-

Additional information: The fair value of the L&B is equal to the cost price thereof. Acquisitions to L&B are paid for in cash.

REQUIRED: Disclose the purchase of the L&B in the statement of cash flows of Unicorn CC for the year ended 31 December 2009.

1. Is there a difference?

R(500 000 – 0) = R500 000; Increase

2. Analyse the difference and determine the cash flow

Analysis: Due to a cash purchase made

Cash flow: **R500 000**

Note: Was the L&B purchased to maintain or expand operating capacity? No mention of replacement, thus expansion.

CASH FLOWS FROM INVESTING ACTIVITIES

Investment in property, plant and equipment to expand operating capacity

Addition to land and buildings

R

(500 000)

EXAMPLE 6

The following information is extracted from the accounting records of Unicorn CC as at 31 December, the end of the financial year:

	2009	2008
	R	R
Property, plant and equipment (Vehicles)	126 650	64 000

From the statement of comprehensive income for the year ended 31 December 2009:

Loss on sale of vehicle	R1 800
Depreciation (Vehicles)	R25 550

During the year a vehicle with a carrying amount of R60 800 was sold for cash. A vehicle was purchased for cash as replacement.

REQUIRED:

Disclose the purchase of the vehicle and the proceeds from the sale of the vehicle in the statement of cash flows of Unicorn CC for the year ended 31 December 2009.

1. Is there a difference?

$R(126\ 650 - 64\ 000) = R62\ 650$; Increase

2. Analyse the difference and determine the **cash flows**

Analysis: A vehicle was sold **and** another purchased.

Vehicle purchased: (Work with vehicles at carrying amount)

Add: depreciation for the year, the carrying amount of the vehicle sold, and the closing balance of the vehicles at carrying amount, then subtract the opening balance of the vehicles at carrying amount

$R[(25\ 550 + 60\ 800 + 126\ 650) - 64\ 000] = R149\ 000$

Vehicle sold: Carrying amount given at R60 800

Selling price: $R(60\ 800 - 1\ 800) = R59\ 000$

Were the transactions for cash or on credit?

Both transactions were for cash.

Note: The vehicle purchased was to replace the sold vehicle, therefore: maintaining operating capacity.

CASH FLOWS FROM INVESTING ACTIVITIES	R	
Investment in P,P&E to maintain operating capacity		
Replacement of vehicle	(149 000)	
Investment in P,P&E to expand operating capacity		
Addition to land and buildings	(500 000)	
Proceeds from sale of vehicle	59 000	

EXAMPLE 7

The following information is extracted from the accounting records of Unicorn CC as at 31 December, the end of the financial year:

	2009	2008
	R	R
Property, plant and equipment (Furniture and equipment)	243 700	243 000

From the statement of comprehensive income for the year ended 31 December 2009:

Depreciation (Furniture and equipment) R24 300

A member of the CC contributed equipment, valued at R25 000, to the CC as capital. The contribution was recorded as such.

REQUIRED:

Disclose any cash flows pertaining to the furniture and equipment in the statement of cash flows of Unicorn CC for the year ended 31 December 2009.

1. Is there a difference?

$R(243\ 700 - 243\ 000) = R700$; Increase

2. Analyse the difference and determine the **cash flows**

Analysis: Equipment to the value of R25 000 was contributed.

(Work with furniture and equipment at carrying amount)

Add: depreciation for the year, closing balance, then **subtract** the opening balance.

$R[(24\ 300 + 243\ 700) - (243\ 000)] = R25\ 000$

Cash flows: No cash flow, R25 000 pertains to equipment contributed – no disclosure in statement of cash flows.

EXAMPLE 8

The following information is extracted from the accounting records of Unicorn CC as at 31 December, the end of the financial year:

	2009	2008
	R	R
Financial assets (Available-for-sale)	-	200 400

The available-for-sale financial asset was sold for cash at a profit of R60 100.

REQUIRED:

Disclose the proceeds from the sale of the available-for-sale financial asset and complete the cash flows from investing activities-section in the statement of cash flows of Unicorn CC for the year ended 31 December 2009.

1. Is there a difference?

$R(0 - 200\ 400) = R200\ 400$; Decrease

2. Analyse the difference and determine the cash flows

Analysis: The asset was sold.

Fair value + profit = Selling price

$R(200\ 400 + 60\ 100) = R260\ 500$

Cash flows: Cash inflow of R260 500, as the asset was sold for cash.

CASH FLOWS FROM INVESTING ACTIVITIES	R	R
Investment in P,P&E to maintain operating capacity		
Replacement of vehicle	(149 000)	
Investment in P,P&E to expand operating capacity		
Addition to land and buildings	(500 000)	
Proceeds from sale of vehicle	59 000	
Proceeds from the sale of available-for-sale financial asset	260 500	
Net cash used in investing activities		(329 500)

CASH FLOWS FROM FINANCING ACTIVITIES

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EXAMPLE 9**(CASH FLOWS FROM FINANCING ACTIVITIES)**

The following information is extracted from the accounting records of Unicorn CC at 31 December, the end of the financial year:

	2009	2008
	R	R
Members' contributions	300 900	275 900
Long-term borrowings	500 000	207 500
Current portion of long-term borrowings	207 500	-

A member of the CC contributed equipment to the value of R25 000 as capital. The R500 000 (2009) long-term borrowings pertain to a mortgage that was obtained.

REQUIRED:

Disclose the cash flows from financing activities-section in the statement of cash flows of Unicorn CC for the year ended 31 December 2009.

Members' contributions**1. Is there a difference?**

$R(300\ 900 - 275\ 900) = R25\ 000$; Increase

2. Analyse the difference and determine the **cash flows**

Analysis: Pertains to equipment that was contributed as capital.

Cash flow: No cash flow

Long-term borrowings**1. Is there a difference?**

Before calculating the difference – determine the total amount pertaining to borrowings for 2009:

$R(500\ 000 + 207\ 500) = R707\ 500$

Then,

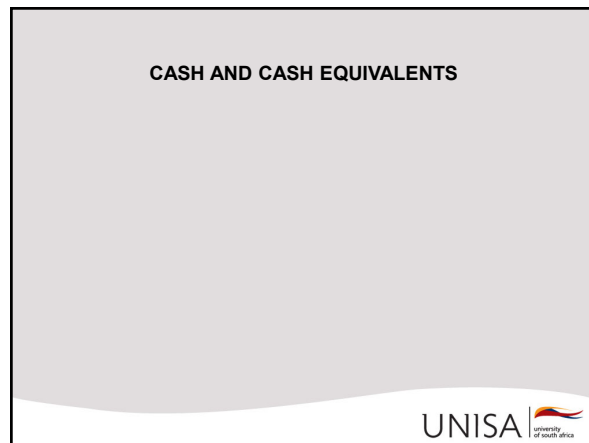
$R(707\ 500 - 207\ 500) = R500\ 000$, Increase.

2. Analyse the difference and determine the **cash flows**

Analysis: Pertains to a mortgage obtained.

Cash flow: Yes - inflow of R500 000.

CASH FLOWS FROM FINANCING ACTIVITIES	R	R
Proceeds from mortgage	500 000	
Net cash from financing activities		500 000

**EXAMPLE 10
(CASH AND CASH EQUIVALENTS)**

The following information is extracted from the accounting records of Unicorn CC at 31 December, the end of the financial year:

	2009	2008
	R	R
Cash and cash equivalents (Bank) (Dr)	265 530	36 500

REQUIRED:

Disclose the cash and cash equivalents in the statement of cash flows of Unicorn CC for the year ended 31 December 2009.

**UNICORN CC
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 DECEMBER 2009**

	R	R
<i>Net cash from operating activities</i>		58 530
<i>Net cash used in investing activities</i>		(329 500)
<i>Net cash from financing activities</i>		500 000
Net increase in cash and cash equivalents		229 030
Cash and cash equivalents at beginning of year		36 500
Cash and cash equivalents at end of year		265 530

STUDY UNIT 8

ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS

The analysis and interpretation of financial statements refers to the measurement and evaluation of information contained in the financial statements.

The main **objective** of financial statement analysis is to summarise information in the financial statements, by management and others, for decision making purposes.

The process entails the calculation of the ratios which are then interpreted by comparing the results with previous years' ratios, other entity's ratios and standards set for industry.

Different users will use different ratios.

CATEGORIES OF FINANCIAL RATIOS

PROFITABILITY

- Return on equity
- Return on total assets
- Gross profit percentage
- Profit margin
- Financial leverage and leverage effect

LIQUIDITY

- Current ratio
- Acid test ratio
- Trade receivables collection period
- Trade payables settlement period
- Inventory turnover rate
- Inventory holding period

SOLVENCY

- Debt-equity ratio
- Times interest earned ratio

Example:

The following information was extracted from the financial records of Zoo Limited at 28 February 2009, the end of the financial year.

	2009	2008
	R	R
Inventory	43 500	13 500
Trade receivables	30 000	28 000
Trade payables	18 000	16 000

Additional information:

1. Purchases for the year amounted to R165 000. 45% of purchases was on credit.
2. The gross profit percentage is 40% on sales.
3. 30% of the total sales were cash sales.
4. Ratios reported in year ended 28 February 2008:
Trade receivables collection period – 56 days
Trade payables payment period – 54,6 days
Inventory turnover rate – 5 times

Required:

Calculate the following ratios for the year ended 28 February 2009:

- (a) Trade receivables collection period
- (b) Trade payables payment period
- (c) Inventory turnover rate

STUDY UNIT 9

BRANCHES

CALCULATION OF PROFIT MARK-UP
BASED ON THE COST PRICE

Determination of the selling price: (when cost price is given)

Inventory is invoiced to the branch at cost plus **25%**.

Inventory with a cost price of **R200** is invoiced to the branch.

Determine the selling price and profit mark-up.

	%
Cost price	100
Profit mark-up	+25
Selling price	125

The selling price is: $R200 \times 125/100 = R250$

The profit mark-up is: $R200 \times 25/100 = R50$

OR

$R250 - R200 = R50$

**CALCULATION OF PROFIT MARK-UP
BASED ON THE COST PRICE**

Determination of the cost price: (when selling price is given)
Inventory is invoiced to the branch at cost plus **25%**.
Inventory with a selling price of **R250**, is invoiced to the branch.
Determine the cost and profit mark-up.

Selling price	%
Profit mark-up	125
Cost price	(25)
	100

The cost price is: $R250 \times 100/125 = R200$
The profit mark-up is: $R250 \times 25/125 = R50$

OR

$R250 - R200 = R50$

**CALCULATION OF PROFIT MARK-UP
BASED ON THE SELLING PRICE**

Determination of the selling price: (when cost price is given)
Inventory is invoiced to the branch at a mark up of **20%** on the selling price. Inventory with a cost price of **R200** is invoiced to the branch. Determine the selling price and profit mark-up.

Cost price	%
Profit mark-up	80
Selling price	20
	100

The selling price is: $R200 \times 100/80 = R250$
The profit mark-up is: $R200 \times 20/80 = R50$

OR

$R250 - R200 = R50$

**CALCULATION OF PROFIT MARK-UP
BASED ON THE SELLING PRICE**

Determination of the cost price: (when selling price is given)
Inventory is invoiced to the branch at a mark up of **20%** on selling price. Inventory with a selling price of **R250** is invoiced to the branch.
Determine the cost and profit mark-up.

Selling price	%
Profit mark-up	100
Cost price	(20)
	80

The cost price is: $R250 \times 80/100 = R200$
The profit mark-up is: $R250 \times 20/100 = R50$

OR

$R250 - R200 = R50$

ACCOUNTS NECESSARY TO RECORD INVENTORY TRANSACTIONS

Dr	Branch inventory account		Cr
	R		R

Dr	Branch adjustment account		Cr
	R		R

Dr	Inventory to branch account		Cr
	R		R

ACCOUNTS NECESSARY TO RECORD INVENTORY TRANSACTIONS

Dr	Branch inventory account		Cr
	R		R
	All inventory transactions at selling price, cost and profit mark-up shown separately		

Dr	Branch adjustment account		Cr
	R		R

Dr	Inventory to branch account		Cr
	R		R

ACCOUNTS NECESSARY TO RECORD INVENTORY TRANSACTIONS

Dr	Branch inventory account		Cr
	R		R
	All inventory transactions at selling price, cost and profit mark-up shown separately		

Dr	Branch adjustment account		Cr
	R		R
	The profit mark-up on all inventory transactions between the head office and the branch; and profit mark-up on inventory purchased by the branch		

Dr	Inventory to branch account		Cr
	R		R

ACCOUNTS NECESSARY TO RECORD INVENTORY TRANSACTIONS

Dr	Branch inventory account	Cr
	R	R
	All inventory transactions at selling price, cost and profit mark-up shown separately	

Dr	Branch adjustment account	Cr
	R	R
	The profit mark-up on all inventory transactions between the head office and the branch; and profit mark-up on inventory purchased by the branch	

Dr	Inventory to branch account	Cr
	R	R
	The cost price of all inventory transactions between the head office and the branch	

RECORDING THE INVENTORY TRANSACTIONS

The following information relates to Knife, a dependent branch of Sharp Limited:

Balances: Inventory at cost price	1 January 20.0	R38 040
Inventory at selling price	31 December 20.0	R49 500

Inventory is supplied to the branch by the head office at selling price, that is cost plus 20%.

Dr	Branch inventory account	Cr
	R	R
	Balance b/d	45 648

Dr	Branch adjustment account	Cr
	R	R
	Balance: (Mark-up on opening inventory) b/d	7 608

RECORDING INVENTORY TRANSACTIONS

Transactions during the year ended 31 December 2000:

	R
Goods sent to branch (cost price)	303 120
Returns to head office (selling price)	1 500

Inventory is supplied to the branch by the head office at selling price, that is cost plus 20%.

Dr	Branch inventory account	Cr
	R	R
	Inventory to branch	303 120
	Branch adjustment	60 624

Dr	Inventory to branch	Cr
	R	R
	Branch inventory (Deliveries at cost)	303 120

Dr	Branch adjustment account	Cr
	R	R
	Branch inventory (Mark-up on deliveries)	60 624

RECORDING INVENTORY TRANSACTIONS

Transactions during the year ended 31 December 2000:

	R
Goods sent to branch (cost price)	303 120
Returns to head office (selling price)	1 500

Inventory is supplied to the branch by the head office at selling price, that is cost plus 20%.

Dr	Branch inventory account	Cr
	R	R
	Inventory to branch	303 120
	Branch adjustment	60 624
	Inventory to branch (Returns to head office)	1 250
	Branch adjustment	250

Dr	Inventory to branch	Cr
	R	R
	Branch inventory (Returns to head office)	1 250
	Branch inventory (Deliveries at cost)	303 120

Dr	Branch adjustment account	Cr
	R	R
	Branch inventory: Mark up on returns	250
	Branch inventory (Mark-up on deliveries)	60 624

RECORDING INVENTORY TRANSACTIONS

Transactions during the year ended 31 December 2000:

	R
Cash sales (deposited in bank)	116 760
Credit sales	175 920

Inventory is supplied to the branch by the head office at selling price, that is, cost plus 20%.

Dr	Branch inventory account	Cr
	R	R
	Bank (Cash sales)	116 760
	Branch debtors (Credit sales)	175 920

Dr	Bank	Cr
	R	R
	Branch inventory (Cash sales)	116 720

Dr	Branch debtors control	Cr
	R	R
	Branch inventory (Credit sales)	175 920

RECORDING INVENTORY TRANSACTIONS

Transactions during the year ended 31 December 2000:

An amount of R1 305 was embezzled from the money received for cash sales. No entry in this respect has been made. The company is not insured against theft of cash.

Inventory is supplied to the branch by the head office at selling price, that is, cost plus 20%.

Dr	Branch inventory account	Cr
	R	R
	Branch expenses	1 305

Dr	Branch expense	Cr
	R	R
	Branch inventory	1 305

RECORDING INVENTORY TRANSACTIONS

Transactions during the year ended 31 December 2000:

An annual sale took place at the end of November 2000. Goods were sold at selling price less 30%. The proceeds from the annual sale amounted to R50 400. The money must still be deposited into the bank account.

Inventory is supplied to the branch by the head office at selling price, that is cost plus 20%.

Dr		Branch inventory account		Cr	
	R		R		
		Bank (Cash sales)	50 400		

RECORDING INVENTORY TRANSACTIONS

Transactions during the year ended 31 December 2000:

An annual sale took place at the end of November 2000. Goods were sold at selling price less 30%. The proceeds from the annual sale amounted to R50 400.

Inventory is supplied to the branch by the head office at selling price, that is cost plus 20%.

Dr		Branch inventory account		Cr	
	R		R		
		Bank (Cash sales)	50 400		
		Branch adjustment (Mark-down on sales)	12 000		

RECORDING INVENTORY TRANSACTIONS

Transactions during the year ended 31 December 2000:

An annual sale took place at the end of November 2000. Goods were sold at selling price less 30%. The proceeds from the annual sale amounted to R50 400.

Inventory is supplied to the branch by the head office at selling price, that is cost plus 20%.

Dr		Branch inventory account		Cr	
	R		R		
		Bank (Cash sales)	50 400		
		Branch adjustment (Mark-down on sales)	12 000		
		Branch expense (Mark-down on cost)	9 600		

RECORDING INVENTORY TRANSACTIONS

The following information relates to Knife, a dependent branch of Sharp Limited:

Balances: Inventory at cost price 1 January 20.0 R38 040
Inventory at selling price 31 December 20.0 R49 500

Inventory is supplied to the branch by the head office at selling price, that is, cost plus 20%. Inventory sent to branch at a selling price of R7 500 is still in transit at 31 December 2000.

Dr		Branch inventory account		Cr	
	R		R		
		Balance (Inventory in transit)	7 500		
		Balance (Closing inventory)	49 500		

Dr		Branch adjustment account		Cr	
	R		R		
Balance (Mark-up on inventory in transit)	1 250				
Balance (Mark-up on closing inventory)	8 250				

BALANCING THE BRANCH INVENTORY ACCOUNT

If there is a balance on this account it is either a **surplus** or **shortage** of inventory.

Entries to record a **surplus**:

Dr: Branch inventory account
Cr: Branch adjustment account

Entries to record a **shortage**:

Cr: Branch inventory account
Dr: Branch adjustments account