

PART 5

External Reporting and Performance Evaluation

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CHAPTER 18

Statements of financial performance and position

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ADDITIONAL PROBLEMS

Problem 18.1

Reserves, dividends and tax, statement of financial performance

The following was obtained from the ledger of Leederville Ltd as at 30 June 2003:

Share capital:	
100 000 ordinary shares paid to 75c, but issued for \$1	\$75 000
40 000 10% preference shares fully paid at \$1	40 000
Calls in advance	500
General reserve	20 000
Retained profits 1/7/02	16 000
Profit for year before tax	30 000
Provision for income tax (2001–02 profits)	8 000
Interim dividend paid on ordinary shares (1/1/03)	4 000
Total income tax paid on 2001–02 profits	8 500

End of year adjustments

1. Income tax expense of \$7000 is calculated on 2002–03 profits. The company pays tax as a small company.
2. Provide for dividend on preference shares for the year.
3. Provide for a final dividend on ordinary shares of \$3000.
4. Transfer \$4000 from the general reserve.

Required:

- A. Prepare a statement of financial performance for the year ended 30 June 2003 in accordance with the format suggested in AASB 1018.
- B. Prepare a statement of shareholders' equity as at 30 June 2003.

Solution

A.

LEEDERVILLE LTD
Statement of Financial Performance
for the year ended 30 June 2003

Revenue from ordinary activities	\$X
Expenses from ordinary activities	<u>X</u>
Profit from ordinary activities before income tax expense	*29 500
Income tax expense relating to ordinary activities	<u>7 000</u>
Profit from ordinary activities after related income tax expense	<u>22 500</u>
Net profit (loss)	<u>22 500</u>
Total changes in equity other than those resulting from transactions with owners as owners	<u>\$22 500</u>

Note in relation to retained profits:

Retained profits at the beginning of the financial year	\$16 000
Net profit (loss)	22 500
Dividends recognised as a liability or paid	(11 000)
Transfers from reserves:	
General reserve	<u>4 000</u>
Retained profits at the reporting date	<u>\$31 500</u>

B.

LEEDERVILLE LTD
Statement of Shareholders' Equity
as at 30 June 2003

	Note	
Share capital	(1)	\$115 000
Calls in advance		500
Reserves		16 000
Retained profits		<u>31 500</u>
Total shareholders' equity		<u>\$163 000</u>

Note 1: Share capital details consist of:

100 000 ordinary shares issued for \$1 and paid to 75c	75 000
40 000 10% preference shares fully paid at \$1	<u>40 000</u>
	<u>\$115 000</u>

Note 2: Reserves consist of:

General reserve	16 000
The opening balance of this reserve was \$20 000 and \$4 000 has been transferred back to retained profits in the current year.	



Problem 18.2 Ledgers, statement of financial performance

The following information relating to the year ending 30 June 2002 for Warwick Ltd has been obtained from the company's records.

Profit for year before further adjustments and tax	\$33 000
Retained profits (1 July 2001)	5 500
General reserve	3 000
Asset revaluation reserve	2 500
Interim dividends paid	5 000
Income tax paid on 2000–01 profits	7 000
Provision for income tax on 2000–01 profits	8 000
Goodwill	2 500
Share issue costs	1 000

On 30 June 2002, the directors decided to:

1. recommend a final dividend payment of \$7000
2. write off share issue costs
3. write off goodwill
4. increase general reserve by \$1000
5. provide for an estimated tax expense and current tax liability of \$7500 on 2001–02 profits. The company pays tax as a small company.

Required:

Record the above adjustments in ledger accounts and prepare a statement of financial performance complying with AASB 1018.

Solution

WARWICK LTD

Income Tax Expense

30/6	Prov. for tax	7 500	30/6	P & L Summary	7 500

Overprovision for Tax Expense

30/6	P & L Summary	1 000	30/6	Prov. for tax	1 000

Profit and Loss Summary

30/6	Goodwill	2 500		Profit before adjustments	33 000
30/6	Income tax expense	7 500		Overprovision for tax	1 000
30/6	Retained Profits	24 000			
		34 000			34 000

Interim Dividends Paid

	Balance	5 000	30/6	Retained profits	5 000

Final Dividends Provided

30/6	Balance	7 000	30/6	Retained profits	7 000

Retained Profits

30/6	To general reserve	1 000	1/7	Balance	5 500
30/6	Interim dividends	5 000		Net profit	24 000
30/6	Final dividends	7 000			
	Balance c/d	16 500			
		29 500			29 500
				Balance b/d	16 500

Share Issue Costs

	Balance	1 000	30/6	Share capital	1 000

Goodwill

	Balance	2 500	30/6	P&L Summary	2 500

Provision for Income Tax				
1/12/01	Cash	7 000	Balance	8 000
30/6	Overprovision for tax	1 000		
		<u>8 000</u>		<u>8 000</u>
			30/6	Income tax exp.
				<u>7 500</u>

Provision for Final Dividends			
	30/6	Final div provided	7 000

Asset Revaluation Reserve	
	Balance 2 500

General Reserve					
				Balance	3 000
30/6	Balance c/d	4 000	30/6	Retained profits	1 000
		<u>4 000</u>			<u>4 000</u>
			30/6	Balance b/d	<u>4 000</u>

(continued)

WARWICK LTD
Statement of Financial Performance
for the year ended 30 June 2002

Revenue from ordinary activities	\$X
Expenses from ordinary activities	<u>X</u>
Profit from ordinary activities before income tax expense	31 500
Income tax expense relating to ordinary activities	<u>7 500</u>
Profit from ordinary activities after related income tax expense	<u>24 000</u>
Net profit (loss)	<u>24 000</u>
Total changes in equity other than those resulting from transactions with owners as owners	<u>\$24 000</u>

Note in relation to retained profits:

Retained profits at the beginning of the financial year	\$5 500
Net profit (loss)	24 000
Dividends recognised as a liability or paid	(12 000)
Transfers to reserves:	
General reserve	<u>(1 000)</u>
Retained profits at the reporting date	<u>\$13 000</u>

Problem 18.3 Dividends, reserves, financial statements

Stirling Ltd commenced trading many years ago. Shareholders' equity at 30 June 2002 comprised:

Share capital, 20 000 ordinary shares fully paid at \$10	\$200 000
General reserve	115 000
Retained profits	21 500
	<u>\$336 500</u>

It is company policy to provide for the final dividend in the financial statements as at 30 June each year. During the financial year ended 30 June 2003, the following transactions with respect to capital and dividends took place:

2002	
Sept. 30	Final dividend of \$1 per share for year ended 30 June 2000 was ratified and paid.
Nov. 30	Issued 15 000 shares, fully paid at \$10, in payment for assets with a fair value of \$150 000.
2003	
Mar. 1	Likely tax for year ended 30 June 2003 was estimated to be \$42 000. The appropriate instalment was to be paid on the basis of the company being taxed as a medium company.
31	Interim dividend of 50c for the half-year ended 31 December 2002 paid on all shares.
June 30	The company made an operating profit before tax of \$200 000 for the financial year. The directors decided: (a) to provide for income tax expense and current liability at 40% of operating profit before tax. (b) to transfer \$20 000 to general reserve. (c) to provide for a final dividend of \$1 per share on all issued shares.

Required:

- Prepare entries in general journal format to record the above transactions. Ignore closing entries.
- Prepare the statement of financial performance to comply with AASB 1018.
- Prepare a statement of shareholders' equity as at 30 June 2003.

(continued)

Solution

A.

STIRLING LTD

2002

Sept.	30	Provision for Final Dividends	20 000	
		Cash at Bank		20 000
		To record payment of dividend.		

Nov.	30	Assets	150 000	
		Share Capital		150 000
		To record acquisition of assets		

2003

Mar.	1	Income Tax Expense	42 000	
		Provision for Income Tax		42 000
		To record likely tax.		

	31	Interim Dividends Provided	17 500	
		Provision for Interim Dividends		17 500
		To declare 50c interim dividend on 35 000 shares.		

	31	Provision for Interim Dividends	17 500	
		Cash at Bank		17 500
		To record payment of dividend.		

Jun.	1	Provision for Income Tax	10 500	
		Cash at Bank		10 500
		To record first instalment for tax.		

	30	Revenues and Expenses	200 000	
		Profit & Loss Summary		200 000
		Closing entry.		

	30	Income Tax Expense	38 000	
		Provision for Income Tax		38 000
		To record additional income tax for the year.		

	30	Profit and Loss Summary	80 000	
		Income Tax Expense		80 000
		Closing entry.		

	30	Retained Profits	20 000	
		General Reserve		20 000
		To transfer to general reserve.		

	30	Final Dividends Provided	35 000	
		Provision for Final Dividends		35 000
		To provide for final dividend.		



B.

STIRLING LTD
Statement of Financial Performance
for the year ended 30 June 2003

Revenue from ordinary activities	\$X
Expenses from ordinary activities	X
Profit from ordinary activities before income tax expense	200 000
Income tax expense relating to ordinary activities	<u>80 000</u>
Profit from ordinary activities after related income tax expense	<u>120 000</u>
Net profit (loss)	<u>120 000</u>
Total changes in equity other than those resulting from transactions with owners as owners	<u>\$120 000</u>

Note in relation to retained profits:

Retained profits at the beginning of the financial year	\$21 500
Net profit (loss)	120 000
Dividends recognised as a liability or paid	(52 500)
Transfers to reserves:	
General reserve	<u>(20 000)</u>
Retained profits at the reporting date	<u>\$69 000</u>

C.

STIRLING LTD
Statement of Shareholders' Equity
as at 30 June 2000

	Note	
Share capital	(1)	\$350 000
Reserves	(2)	135 000
Retained profits		69 000
Total shareholders' equity		\$554 000

Note 1

Share capital consists of:

35 000 ordinary shares fully paid at \$10	\$350 000
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Note 2

Reserves consist of:

General reserve	\$135 000
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The opening balance of this reserve was \$115 000 and \$20 000 has been transferred from retained profits in the current year.



WILEY

Problem 18.4 Reserves, dividends, tax, statement of financial performance

The following information is provided by Whitfords Ltd at 30 June 2002:

	Debit	Credit
Share capital:		
Ordinary shares (65 000 shares fully paid at \$1)		\$ 65 000
(10 000 shares called to 50c, issued at \$1)		5 000
Preference shares (200 000 shares fully paid at 50c each)		100 000
Calls in advance (25c per share)		200
General reserve		35 000
Retained profits (1/7/01)		18 000
Profit before tax (before any necessary amendments)		60 000
Gross proceeds on sale of non-current asset		15 000
Carrying amount of non-current asset sold	17 500	
Provision for income tax (2000–01 profits)		18 000
Underprovision for income tax paid during 2001–02	2 000	
Legal damages expense (lawsuit)	3 000	
Interim dividend – Ordinary shares (paid 31 December 2001)	3 500	

The following adjustments to the above accounts are necessary before preparation of the final accounting reports:

1. Provide for taxation expense of \$21 800 on operating profits (includes deduction for the sale of non-current asset and damages from the lawsuit). The estimate of likely tax for this medium company had been made previously at \$20 000 on 1 March.
2. Provide for final dividends:

Ordinary shares	\$7000
Preference shares	7500
3. Write off \$3000 of goodwill (normal amortisation amount).
4. Transfer \$8000 from general reserve.
5. Assume a tax rate of 40%.

Required:

- A. Prepare the statement of financial performance for year ended 30 June 2002.
- B. Prepare a statement of shareholders' equity as at 30 June 2002.



Solution

A.

WHITFORDS LTD Statement of Financial Performance for the year ended 30 June 2002

	Note	
Revenue from ordinary activities	1	\$X
Expenses from ordinary activities	2	<u>X</u>
Profit from ordinary activities before income tax expense		*49 500
Income tax expense relating to ordinary activities (40%)		<u>21 800</u>
Profit from ordinary activities after related income tax expense		<u>27 700</u>
Net profit	3	<u>27 700</u>
Total changes in equity other than those resulting from transactions with owners as owners		<u>\$27 700</u>

* \$49 500 = \$60 000 – \$2 500 loss on sale – \$2 000 underprovision
for tax – \$3 000 goodwill – \$3 000 legal damages

Note 1: Revenue from ordinary activities

Revenue from ordinary activities consists of:

Sales revenue	\$X
Proceeds from sale of non-current asset	<u>15 000</u>
	<u>X</u>

The loss on sale of non-current assets equals \$2 500.

Note 2: Expenses from ordinary activities

Expenses from ordinary activities include:

Cost of sales	\$X
Selling expenses	X
Administrative expenses	X
Financial expenses	X
Expenses included above and separately disclosed are:	
Depreciation of non-current assets	X
Amortisation of goodwill	3 000
Legal damages	3 000
Underprovision for income tax	2 000

Note 3: Retained profits:

Retained profits at the beginning of the financial year	\$18 000
Net profit	27 700
Dividends recognised as a liability or paid	(18 000)
Transfers from reserves:	
General reserve	<u>8 000</u>
Retained profits at the reporting date	<u>\$35 700</u>

B.

WHITFORDS LTD
Statement of Shareholders' Equity
as at 30 June 2002

Share capital	(1)	\$170 000
Calls in advance		200
Reserves	(2)	27 000
Retained profits		<u>35 700</u>
Total shareholders' equity		<u>\$232 900</u>

Note 1: Share capital consists of:

65 000 ordinary shares fully paid at \$1	\$65 000
10 000 ordinary shares issued at \$1 and paid to 50c	5 000
200 000 preference shares fully paid at 50c	<u>100 000</u>
	<u>\$170 000</u>

Note 2: Reserves consist of

General reserve	\$27 000
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The opening balance of this reserve was \$35 000 and \$8 000 has been transferred back to retained profits in the current year.

Problem 18.5 Comprehensive problem

The trial balance of Joondalup Ltd at 30 June 2003 is shown below.

JOONDALUP LTD Trial Balance as at 30 June 2003		
	Debit	Credit
Share capital (50 000 shares issued at \$1 called to 80c)		\$ 40 000
Retained profits 1/7/02		5 000
General reserve		4 200
Provision for income tax		500
Asset revaluation reserve		10 000
Sales		150 000
Sales returns and allowances	\$ 500	
Purchases	100 000	
Purchases returns and allowances		720
Freight inwards	600	
Freight outwards	700	
Advertising expense	1 000	
Preliminary expenses	3 000	
Goodwill	14 000	
Buildings (at revaluation)	30 000	
Selling expenses	1 000	
Sales staff's salary expense	10 000	
Sales staff's car expenses	1 500	
Sales staff's entertainment expenses	1 200	
General expenses	1 250	
Insurance expense	2 000	
Rates expense	1 000	
Discount allowed	1 270	
Accounts receivable	17 000	
Allowance for doubtful debts		500
Accumulated depreciation — buildings		1 000
— motor vehicles		2 000
— office furniture		1 000
Accounts payable		6 000
Bills payable		1 000
Cash at bank	6 100	
Motor vehicles (at cost)	10 000	
Office furniture (at cost)	3 000	
Inventory 1/7/02	10 000	
Office salaries expense	5 300	
Call no. 2 (500 shares at 20c)	100	
Interest on overdraft expense	50	
Rent expense	1 350	
	<u>\$ 221 920</u>	<u>\$ 221 920</u>

The following adjustments are required:

1. Inventory 30/6/03, \$16 000.
2. Write off bad debts \$300.
3. Increase allowance for doubtful debts to 4% of accounts receivable after making adjustment for (2).
4. Provide for income tax expense of \$7500. The company is a small company for tax purposes. The credit balance of the Provision for Income Tax in the trial balance represents an overprovision for the previous year.
5. Transfer \$1000 to general reserve.
6. Accrued expenses: sales staff's salary \$650; office salaries \$270; interest on overdraft \$20.
7. Write off preliminary expenses \$500 and goodwill at 10% amortisation rate.
8. Rent prepaid \$300.
9. Write off depreciation: motor vehicles 10% on cost; office furniture 20% on cost; buildings 5% of revalued amount.
10. Provide for a dividend of 20c per share.

Required:

Prepare a statement of financial performance and statement of financial position for Joondalup Ltd for year ended 30 June 2003, showing necessary details and calculations while following the format suggested by accounting standards.

Solution

The financial statements are presented in accordance with the latest versions of AASB 1018 and AASB 1040, as illustrated at the beginning of this chapter of the solutions manual.

JOONDALUP LTD
Statement of Financial Performance
for the year ended 30 June 2003

	<u>Note</u>	
Revenue from ordinary activities	1	\$150 000
Expenses from ordinary activities, excluding borrowing		
costs expense	2	**(127 538)
Borrowing costs expense		<u>(70)</u>
Profit from ordinary activities before income tax expense		**22 392
Income tax expense relating to ordinary activities		<u>7 500</u>
Profit from ordinary activities after related income tax expense		<u>14 892</u>
Net profit (loss)	3	<u>14 892</u>
Total changes in equity other than those resulting from transactions with owners as owners		\$14 892

Note 1: Revenue from ordinary activities

Revenue from ordinary activities consists of:	
Sales revenue [net of returns and allowances]	\$149 500
Overprovision for income tax	<u>500</u>
	<u>150 000</u>

Note 2: Expenses from ordinary activities

Expenses from ordinary activities include:	
Cost of sales	\$93 880
Selling expenses	17 050
Administrative expenses	13 820
Financial expenses	2 858
Expenses included above and separately disclosed are:	
Depreciation of non-current assets	3 100
Amortisation of goodwill	1 400
Write-off of preliminary expenses	500
Bad debts expense	468

(continued)

Note 3: Retained profits:

Retained profits at the beginning of the financial year	\$5 000
Net profit (loss)	14 892
Dividends recognised as a liability or paid	(10 000)
Transfers to reserves:	
General reserve	<u>(1 000)</u>
Retained profits at the reporting date	<u>\$8 892</u>

**The above statement is prepared in accordance with disclosure requirements of AASB 1004 and AASB 1018. If the statement is prepared for internal management purposes, the following details would be calculated:

Net sales revenue			\$149 500
Cost of goods sold:			
Opening inventory	\$10 000		
Purchases	100 000		
Returns and allowances	(720)		
Freight inwards	<u>600</u>		
	109 880		
Closing inventory			<u>16 000</u>
			<u>93 880</u>
Gross profit			55 620
Operating expenses			
Selling expenses:			
Freight outwards	\$700		
Advertising expense	1 000		
Selling expense	1 000		
Sales staff salary	10 650		
Sales staff car expenses	1 500		
Entertainment expenses	1 200		
Depr. of motor vehicles	<u>1 000</u>	17 050	
Administrative expenses:			
General expenses	1 250		
Insurance expense	2 000		
Rates expense	1 000		
Office salaries expense	5 570		
Write off preliminary expenses	500		
Amortisation of goodwill	1 400		
Depreciation - office furniture	600		
Depreciation - buildings	<u>1 500</u>	13 820	
Financial expenses:			
Rent expense	1 050		
Discount allowed	1 270		
Interest on overdraft	70		
Bad debts expense	<u>468</u>	<u>2 858</u>	<u>33 728</u>
			<u>21 892</u>
Add: Over provision for tax on 2001-02 profits			<u>500</u>
Profit before income tax			<u><u>\$22 392</u></u>

(continued)

JOONDALUP LTD
Statement of Financial Position
as at 30 June 2003

Current assets	<u>Note</u>	
Cash assets		\$6 100
Receivables	1	16 032
Inventories		16 000
Other [prepaid rent]		<u>300</u>
Total current assets		38 432
Non-current assets		
Property, plant and equipment	2	35 900
Intangible assets	3	<u>15 100</u>
Total non-current assets		<u>51 000</u>
Total assets		<u>89 432</u>
Current liabilities		
Payables	4	7 000
Current tax liabilities	5	7 500
Provisions	6	10 000
Other [accrued expenses]		<u>940</u>
Total current liabilities		<u>25 440</u>
Total liabilities		<u>\$25 440</u>
Equity		
Contributed capital	7	39 900
Reserves	8	15 200
Retained profits		<u>8 892</u>
Total equity		<u>\$63 992</u>
<u>Note 1:</u>	Receivables consist of	
	Accounts receivable [17 000 - 300]	16 700
	Allowance for doubtful debts	<u>668</u>
		<u>16 032</u>
<u>Note 2:</u>	Property, plant and equipment consists of	
	Buildings (at valuation on ... by ...)	30 000
	Accumulated depreciation	<u>(2 500)</u>
		27 500
	Motor vehicles	0 000
	Accumulated depreciation	<u>(3 000)</u>
		7 000
	Office furniture	3 000
	Accumulated depreciation	<u>(1 600)</u>
		<u>1 400</u>
		<u>35 900</u>
<u>Note 3:</u>	Intangible assets consist of	
	Goodwill	14 000
	Accumulated amortisation	<u>(1 400)</u>
		12 600
	Preliminary expenses	3 000
	Accumulated amortisation	<u>(500)</u>
		<u>2 500</u>
		<u>15 100</u>
<u>Note 4:</u>	Payables represent	
	Accounts payable	6 000
	Bills payable	<u>1 000</u>
		<u>7 000</u>
<u>Note 5:</u>	Current tax liabilities consist of	
	Provision for income tax	7 500
<u>Note 6:</u>	Provisions consist of	
	Dividends	10 000
<u>Note 7:</u>	Contributed capital consists of	
	Share capital:	
	49 500 shares issued at \$1 and paid to 80c	39 600
	500 shares issued at \$1 and paid to 60c	<u>300</u>
		<u>39 900</u>
<u>Note 8:</u>	Reserves consist of	
	Asset revaluation reserve	10 000
	General reserve	<u>5 200</u>
		<u>15 200</u>