

LECTURE EXAMPLE

Question 1: (Adopted from: Leo, K. and Hoggett, J. Sweeting, J. and Radford, J. (2009) Company Accounting, 6th Edition, John Wiley & Sons.)

An internal Income statement and an internal balance sheet for Petunia Ltd are shown as below:

PETUNIA LTD Income Statement for the year ended 30 June 2011

Income

Revenues

Sales	\$1 545 000	
Less: Sales returns	<u>5 000</u>	\$1 540 000
Services revenue		260 000

Other Income

Proceeds on sale of office furniture		<u>20 000</u>
Total income		1 820 000

Expenses

Selling expenses

Cost of sales	\$942 800	
Freight inwards	<u>6 000</u>	
Total cost of sales		948 800
Freight outwards		7 000
Advertising expense		10 000
Sales staff salaries expense		205 000
Sales staff vehicle expenses		15 000
Telephone expense		12 500
Depreciation of motor vehicles		30 000
Depreciation of store equipment		12 000
Depreciation – retail store		<u>25 000</u>
Total selling expenses		<u>1 265 300</u>

Administrative expenses

Rates expense	15 000
Insurance expense	16 000
Administrative staff salaries expense	197 000
Carrying amount of office furniture sold	17 000
Depreciation – office furniture	<u>18 000</u>
Total administrative expenses	<u>263 000</u>

Financial expenses

Rent expense	16 500
Sales discount allowed	10 000
Interest expense	1 500
Bad debts expense	<u>7 900</u>
Total financial expenses	<u>35 900</u>

Total expenses	<u>1 564 200</u>
Profit before income tax	255 800
Income tax expense (30%)	<u>76 740</u>

Profit for the year \$ 179 060

Other comprehensive income

Gain on revaluation of retail store	<u>60 000</u>
Total comprehensive income	<u>\$ 239 060</u>

PETUNIA LTD
Balance Sheet as at 30 June 20011

Current assets

Cash		\$ 64 000
Accounts receivable	\$218 000	
Allowance for doubtful debts	(10 900)	207 100
Inventory		250 000
Prepaid insurance		4 000
Prepaid rent		<u>2 000</u>
<i>Total current assets</i>		<u>527 100</u>

Non-current assets

Land (at cost)		100 000
Retail store (at fair value)		435 000
Motor vehicles (at cost)	300 000	
Accumulated depreciation	(180 000)	120 000
Store equipment (at cost)	60 000	
Accumulated depreciation	(27 000)	33 000
Office furniture (at cost)	90 000	
Accumulated depreciation	(38 000)	52 000
Goodwill (at cost)		140 000
Development costs		<u>100 000</u>
<i>Total non-current assets</i>		<u>980 000</u>
<i>Total assets</i>		<u>1 507 100</u>

Current liabilities

Accounts payable		60 000
Salaries payable		9 000
Interest payable		300
Current tax liability		76 740
GST payable		8 000
Ordinary dividend payable		80 000
Preference dividend payable		<u>40 000</u>
<i>Total current liabilities</i>		<u>274 040</u>

Non-current liabilities

Loan payable		<u>12 000</u>
<i>Total non-current liabilities</i>		<u>12 000</u>
<i>Total liabilities</i>		<u>286 040</u>
<i>Net assets</i>		<u>\$1 221 060</u>

Equity

Share capital		
400 000 ordinary shares issued and paid to \$1		\$ 400 000
500 000 preference shares issued and paid to \$1		<u>500 000</u>
		900 000
<i>Less: Share issue costs</i>		<u>(13 000)</u>
Net share capital		887 000
Other reserves		
Revaluation reserve	\$160 000	
General reserve	<u>75 000</u>	
Total other reserves		235 000
Retained earnings		<u>99 060</u>
<i>Total equity</i>		<u>\$1 221 060</u>

Additional Information:

- The opening balances of equity items at 1 July 2006 are as follows:

Share capital	\$887 000
General reserve	\$65 000
Revaluation reserve	\$100 000
Retained earnings	<u>\$50 000</u>
Total Equity	\$1 102 000

- During year, Petunia Ltd revalued its retail store up by \$60 000. Transferred \$10 000 of retained earnings to the general reserve.
- Petunia Ltd has declared \$80 000 dividends on ordinary shares and \$40 000 on preference shares
- Income tax rate is 30%

Required:

Prepare a statement of comprehensive income, statement of financial position and a statement of changes in equity according to AASB 101 *Presentation of Financial Statements* and other relevant accounting standards for Petunia Ltd (ignoring notes and comparative amounts).

PETUNIA LTD
Income Statement
for the year ended 30 June 2011

	<i>Note</i>	2011	2010
Revenue			
Cost of sales			
Gross profit			
Service revenue			
Other income			
Selling expense			
Administrative expenses			
Other expenses			
Finance costs			
Profit before income tax			
Income tax expense			
Profit for the year			
Other comprehensive income			
Gain on revaluation of retail store			
Income tax relating to components of other comprehensive income			
Other comprehensive income for the year, net of tax			
Total comprehensive income for the year			

PETUNIA LTD
Balance Sheet
as at 30 June 2011

	<i>Note</i>	2011	2010
ASSETS			
Current assets			
Cash and cash equivalents			
Trade and other receivables			
Inventories			
Total current assets			
Non-current assets			
Property, plant and equipment			
Other intangible assets			
Total non-current assets			
Total assets			
LIABILITIES			
Current liabilities			
Trade and other payables			
Current tax payable			
Total current liabilities			
Non-current liabilities			
Long-term borrowings			
Deferred tax liabilities			
Total non-current liabilities			
Total liabilities			
Net assets			
EQUITY			
Share capital			
Other reserves			
Retained earnings			
Total equity			

PETUNIA LTD
Statement of Changes in Equity
for the year ended 30 June 2011

	Share capital	General reserve	Revaluation reserve	Retained earnings	Total equity
Balance at 1 July 2010					
Total comprehensive income for the year					
Dividend declared – ordinary					
Dividend declared – preference					
Transfer to general reserve					
Balance at 30 June 2011					

Ordinary dividends: 20 cents per share
Preference dividends: 8 cents per share

Note: Comparative figures (for year ended 30 June 2010) should also be disclosed