Monyetla Project – Accounting Gr 12 (2022)

Lesson 4: Correct net profit and Loans

ACTIVITY 1: PRIDONA LIMITED

1.1 Calculate the correct net profit after tax

Incorrect net profit	**2 493 600**
(i) Trading stock deficit (203 200 – 191 900)	(11 300) √√
(ii) Provision for bad debts adjustment (11 400 – 9 000)	+ 2 400 √√
(iii) Rent income	(2 800) √√
(iv) Insurance (6 000 / 12 = 500 X 9)	+ 4 500 √√
(v) Correction of error: Asset disposal (6 800 X 2) [6 800 √]	+13 600 √√
Correct net profit before tax operation, one part correct	**2 500 000** ☑
Income tax must be in brackets	(750 000) √
Net profit after tax check operation, must be NP – tax	**1 750 000** ☑

1.2 BALANCE SHEET OF PRIDONA LIMITED ON 30 JUNE 2015

EQUITY AND LIABILITIES	
Non-current liabilities	**207 000**
Mortgage loan: Custom Bank (262 200 – 55 200)	207 000
Current liabilities	
Short term loan	55 200

Calculations:

6 years x 12 months = **72 monthly payments**

"The loan was obtained on 1 April 2014 and payments started on 30 April 2014. All other loan repayments have been made."

30 April 2014 – 30 June 2015 = **15 months were already paid**

72 – 15 = **57 months to pay off the loan**

R262 200 / 57 = R4 600 per month x 12 = **R55 200 is payable in the next 12 months → Short term loan**

ACTIVITY 2: KHUMALO FASHIONS LTD

2.1 INCOME STATEMENT OF KHUMALO FASHIONS LTD FOR THE YEAR ENDED 28 FEBRUARY 2019

Profit before interest expense	xxx
Interest expense (150 000 + 750 000 – 836 500)	(63 500)
Net profit before tax	**xxx**

2.2 BALANCE SHEET OF KHUMALO FASHIONS LTD ON 28 FEBRUARY 2019

EQUITY AND LIABILITIES	
Non-current liabilities	**630 000**
Loan from director (750 000 – 120 000)	630 000
Current liabilities	
Short term loan	120 000

Loan from director

2019 Feb	28	Bank	CPJ	150 000	2018 Mar	1	Balance	b/d	836 500
		Balance	c/d	750 000	2019 Feb	28	Interest on loan	GJ	63 500
				900 000					**900 000**
					Mar	1	Balance	b/d	750 000

The payment of R150 000 includes the interest on loan. Therefore, the amount paid off the capital part of the loan, was only R150 000 – R63 500 = R86 500

Check: The loan was R836 500 at the beginning of the year and R750 000 at the end of the year → R836 500 – R750 000 = R86 500 paid off the capital part of the loan during the year.

ACTIVITY 3: GANDHI LTD

3.1 INCOME STATEMENT OF GANDHI LTD FOR THE YEAR ENDED 28 FEBRUARY 2017

Profit before interest expense	xxx
Interest expense (487 000 + 62 400 – 495 900)	53 500
Net profit before tax	**xxx**

3.2 BALANCE SHEET OF GANDHI LTD ON 28 FEBRUARY 2017

EQUITY AND LIABILITIES	
Non-current liabilities	**389 600**
Loan: Anca Bank (433 500 + 53 500 – 97 400) **OR** (487 000 – 97 400)	389 600
Current liabilities	
Short term loan	97 400

Loan: Anca Bank

2017 Feb	28	Bank (5 200 x 12)	CPJ	62 400	2016 Mar	1	Balance	b/d	495 900
		Balance	c/d	487 000	2017 Feb	28	Interest on loan	GJ	53 500
				549 400					**549 400**
					Mar	1	Balance	b/d	487 000

Calculations:

Where does the opening balance of R495 900 came from?

"A monthly instalment of R5 200 (including interest) is paid. This was taken into account."

R433 500 was given as the loan amount after the payment of R64 200 (R5 200 x 12) was already **taken into account and subtracted**.

Therefore, the loan amount at the beginning of the year was R433 500 + R62 400
= R495 900

Interest on loan: R487 000 + R62 400 – R495 900 = **R53 500**

Short term loan: 20/100 x R487 000 = R97 400 is payable in the next financial year.

ACTIVITY 4: GIJIMA LTD

BALANCE SHEET OF GIJIMA LTD ON 28 FEBRUARY 2014

EQUITY AND LIABILITIES	
Capital and reserves	**3 127 500**
Ordinary share capital	2 451 000
Retained income	676 500
Non-current liabilities	**500 400**
Mortgage loan: OMS Bank (625 500 – 125 100) must be 0,16 of the capital and reserves amount	500 400
Current liabilities	
Short term loan	125 100

Calculations:

Debt / equity ratio = Loan : Shareholders equity
= 0,16 : 1
= **X** : 3 127 500

X = R3 127 500 x 0,16 = R500 400

This means that the final Loan amount in the Balance Sheet must be **R500 400**.

Note, R500 400 is the final amount of the loan after the short term loan was already subtracted.

"The loan is repayable in five equal annual instalments at the end of June each year"
→ the R500 400 equals to 4 years that is left to pay off the loan.

Short term loan: R500 400 / 4 = R125 100 is payable in the next financial year.

Thus, the original loan amount was R125 100 x 5 = R625 500