

Name:

QUESTION 3: COMPANY FINANCIAL STATEMENTS AND INTERPRETATION
(75 marks; 45 minutes)

You are provided with information from the records of Gandhi Ltd for the financial year ended 28 February 2017.

REQUIRED:

3.1 Complete the Income Statement for the year ended 28 February 2017. Note that some information is included in the ANSWER BOOK. (33)

3.2 Prepare the following notes to the Balance Sheet:

3.2.1 Ordinary share capital (10)

3.2.2 Retained income (10)

3.3 Complete the EQUITY AND LIABILITIES section of the Balance Sheet. Show workings in brackets. (16)

3.4 On 1 March 2016, B Sly (a shareholder) owned 400 000 ordinary shares. On 31 March 2016, she bought an additional 80 000 shares. On 28 February 2017, she convinced the CEO to repurchase 250 000 shares from other shareholders.

3.4.1 Calculate B Sly's percentage shareholding in the company before and after the share buy-back. (4)

3.4.2 Explain why the other shareholders will be concerned about this transaction. (2)

INFORMATION:

A. The following balances/totals, amongst others, appeared in the books on 28 February 2017:

	R
Ordinary share capital	?
Retained income	?
Loan: Anca Bank	433 500
Trading stock (before the annual stock take)	231 700
Debtors' control	540 000
Provision for bad debts (1 March 2016)	19 600
Creditors' control	395 200
SARS: Income tax (provisional tax payments)	360 000
Rent income	61 900
Interest income	?
Sundry expenses	?
Directors' fees	605 500
Audit fees	29 000
Ordinary share dividends (interim)	420 000

B. The gross profit for the year ended 28 February 2017 was calculated at R3 150 000. A mark-up of 60% on cost was achieved.

C. The following adjustments must still be brought into account:

- Stocktaking on 28 February 2017 reflected trading stock of R207 500 on hand.
- Provision for bad debts must be increased to R21 600.
- One third ($\frac{1}{3}$) of the audit fee was still due on 28 February 2017.
- One of the three directors is still owed his fee for February 2017. All three directors received the same monthly fee.
- A vacant storeroom was rented out from 1 June 2016. On 1 January 2017 the rent was increased by R2 700 per month. The rent for February 2017 is outstanding.
- Sundry expenses are the balancing figure.

D. **Loan: Anca Bank**

Interest on the loan is capitalised, but no entry has been made in the books. A monthly instalment of R5 200 (including interest) is paid. This was taken into account. The loan statement showed a closing balance of R487 000. The company plans to increase their loan repayments in order to settle 20% of the loan balance in the next financial year.

E. Operating profit on sales was 14,5%.

F. Income tax at 32% of the net profit amounted to R396 800.

G. **Share capital and dividends:**

- The company is registered with an authorised share capital of 1 200 000 ordinary shares.
- 85% of the authorised shares were in issue on 1 March 2016.
- On 31 March 2016, the directors issued all the unissued shares. EFT payments totalling R756 000 were received.
- On 27 February 2017, the company repurchased 250 000 shares at R4,15 per share.
- An interim dividend was paid on 6 September 2016.
- A final dividend of 25 cents per share was declared on 28 February 2017. All shareholders (including the shares repurchased) were entitled to final dividends. This must still be brought into account.

QUESTION 3**3.1 GANDHI LTD
INCOME STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2017**

Sales	
Cost of sales	
Gross profit	3 150 000
Other income	
Commission income	12 000
Gross income	
Operating expenses	
Salaries and wages	824 000
Depreciation	216 500
Sundry expenses	
Operating profit	
Interest income	
Net profit before interest expense	
Interest expense	
Net profit before tax	
Income tax	(396 800)
Net profit after tax	

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3.2.1 ORDINARY SHARE CAPITAL

AUTHORISED SHARE CAPITAL

1 200 000 ordinary shares

ISSUED SHARE CAPITAL

Ordinary shares on 1 March 2016	3 084 000

3.2.2 RETAINED INCOME

Balance on 1 March 2016	674 500
Ordinary share dividends	
Balance on 28 February 2017	

3.3 EQUITY AND LIABILITIES SECTION OF THE BALANCE SHEET

SHAREHOLDERS' EQUITY	
NON-CURRENT LIABILITIES	
CURRENT LIABILITIES	
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	

3.4.1 Calculate B Sly's percentage shareholding in the company before and after the share buy-back.

Before the buy-back:

After the buy-back:

3.4.2 Explain why the other shareholders will be concerned about this transaction.