

## REVISION: INCOME STATEMENT & ADJUSTMENTS

22 AUGUST 2013

### Lesson Description

In this lesson we:

- Revise the Income statement and adjustments to the Income Statement.

### Key Concepts

#### Income Statement

- A company essentially has three different sets of financial statements.
- The first set is the most comprehensive, and shows all items of income, expenditure, assets and liabilities. This set of financial statements is set up for use by management and other internal users. **We will be focusing on this particular set of financial statements.**
- The **Income statement**, which gives an indication of the operating activities of the enterprise during the year (**result of operations**)
- The **Balance sheet**, which indicates the enterprises' financial position at the end of the year (**state of affairs**)
- Statement of financial position

<b>LIMITED LIABILITY COMPANIES</b>
<b>INCOME STATEMENT – TRADING BUSINESS (Continuous inventory system)</b>

Name of Company \_\_\_\_\_

Income statement for the year ended \_\_\_\_\_

	Notes	R	R
Turnover (sales – debtors allowances)			Xxxx
Cost of sales			(xxx)
Gross profit			Xxxx
Other operating income			Xxxx
(Incomes, excluding interest)			Xxxx
Gross operating income			Xxxxx
(Operating expenses excluding interest)			(xxxx)
Operating profit / (loss)			Xxxxx
Interest income	1		Xx
Profit (loss) before interest expense			Xxxxx
Interest expense	2		(xx)
Profit / (loss) before tax			Xxxx
<b>Taxation</b>			<b>(xxx)</b>
<b>Net profit / (loss) after tax for the year / period</b>	<b>9</b>		<b>Xxxxx</b>

## Questions

### Question 1

#### Adjustment for Salaries

The details of an employee, A .Ashie, who had been employed on 1 February 2012, was omitted from the Salaries Journal for February. The details of his salary were as follows:

NOTE: All contributions are recorded as part of salaries and wages.

SALARIES                      100 000

Gross Salary	Deductions			Contributions	
	PAYE	Pension Fund	UIF	Pension Fund	UIF
10 500	1 890	840	160	420	80

### Question 2

#### Adjustment for Rent Income

The rent income was increased by R900 per month from 1 November 2011. The tenant has not yet paid the rent for February 2012

Financial year 1 March 2011 to 28 February 2012

Rent income	200 700
-------------	---------

### Question 3

#### Adjustment for Bad Debt

A debtor who owes us R32 000 has been declared insolvent. His estate paid 40 cents in every rand and this has been correctly recorded. The remaining balance must be written off as irrecoverable.

### Question 4

#### Adjustment for Interest Expense

The loan statement from SHAIDS Bank reflected the following:

Balance at beginning of financial year	R 300 000
Repayments during the year	R 156 000
Interest capitalized	R ?
Balance at end of financial year	R 180 000

### Question 5

#### Adjustment for Rent Income

##### FINANCIAL YEAR I JULY 2012-30 JUNE 2013

- Rent income 74 000
- The tenant pays his monthly rent in arrears. Rent was **INCREASED** by 20% with effect from 1 January 2013. The rent for June 2013 has not yet been received

### Question 6

#### Adjustment for Packing Materials

##### TRIAL BALANCE ON 30 JUNE 2013

- BALANCE SHEET ACCOUNT SECTION
- Consumable stores on hand 2 400
- NOMINAL ACCOUNTS SECTION
- Packing materials 18 000
- ADJUSTMENT
- The following was established from a physical stock taking at the end of the year:
- Packing material used during the year R 15 000

#### Notes

Take note of Adjustments for:

##### TRADE AND OTHER PAYABLES

- CREDITORS CONTROL
- ACCRUED EXPENSES
- DEFERRED INCOME/INCOME RECEIVED IN ADVANCE
- CREDITORS FOR SALARIES/WAGES
- PENSION FUND
- SARS: PAYE
- SARS: INCOME TAX (CREDIT BALANCE)
- SARS: VAT CONTROL(CREDIT BALANCE)
- DEPOSIT FROM TENNANT