

COMPANIES: INCOME STATEMENT

20 FEBRUARY 2014



Lesson Description

In this lesson we:

- Focus on the format of the Income Statement
- Look at Income Statement Year-end Adjustments



Summary

Income Statement

Statement of Comprehensive Income

- An Income Statement measures a company's financial performance over a specific accounting period.
- It is a summary of all income and expenses and shows a net profit or loss for a specific financial year.

Make sure you remember the following when completing an Income Statement:

- Record all **Income** and **Expenses** relating to a **specific Financial Year** (Matching Principle)
- We **DONOT** include **ASSETS** or **LIABILITIES** in an Income Statement (known as foreign items and you will lose marks)

Income Statement Format

Sales		
Cost of sales (must be in brackets)		
GROSS PROFIT		
OTHER OPERATING INCOME		
Rent income		
Commission income		
Provision for bad debts adjustment (if there is a decrease)		
GROSS OPERATING INCOME		
GROSS OPERATING EXPENSE (must be in brackets)		
Salaries and wages		
Depreciation		
Trading stock deficit		
Provision for bad debts adjustment (if there is an increase)		
Directors fees		
Audit fees		
OPERATING PROFIT		
Interest income (add)	1	
Net Profit before interest expense		
Interest expense (subtract)	2	()
Net profit before tax		
Income tax		()
NET PROFIT FOR THE YEAR/NET PROFIT AFTER TAX	8	



Improve your Skills

Read the information below and show the necessary adjustments that need to be made to the Income Statement.

Question 1

Extract of the Trial Balance before taking into account the adjustments below: (28 February 2013 – end of financial year)

Debtor's control	R70 500
Bad debts	R1 200
Provision for bad debts	R1 340

Adjustment

- The account of M. Taylor, a debtor, has to be written off, R500.
- The provision for bad debts must be adjusted to 2% of trade debtors.

Extract of Income Statement

OPERATING EXPENSES	
Bad Debts	
Provision for bad debts adjustment	

Question 2

Extract of the Trial Balance before taking into account the adjustments below: (28 February 2013 – end of financial year)

SARS Income tax (dr)	R40 000
-----------------------------	----------------

Adjustment

- Income Tax for the year amounted to R56 000 as per the tax assessment.

Extract of Income Statement

Net Profit before tax	160 000
Income Tax	
Net Profit after tax	

Question 3

Extract of the Trial Balance before taking into account the adjustments below: (28 February 2013 – end of financial year)

Sales	R100 000
Cost of sales	R60 000
Trading stock	R25 000

Adjustment

- A dissatisfied customer was issued with a credit note, R400. The credit note was omitted from the relevant journal. The business uses a mark-up of 100% on cost.
- Due to heavy rains in February, stock with a value of R2 000 was damaged. The insurance company decided to pay 50% of the loss, however no payment has yet been received. The bookkeeper did not make any entries for the above transactions.
- A physical stock take at year end showed that the business has stock to the value of R21 300. (this was after taking into account the above adjustments)

notes for...

Extract of Income Statement

Sales	
Cost of sales	
Gross Profit	
Operating expenses	