Grade 12 Accounting: Financial Statements Study Guide

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1. Income Statement (Statement of Comprehensive Income)

Shows profitability over a period.
Structure:

- Sales/Revenue
- Less: Cost of Sales -> = Gross Profit
- Plus: Other income (rent income, interest income)
- Less: Operating expenses (admin, selling, depreciation)
- = Operating Profit / EBIT
- Less: Interest expense
- = Net Profit before Tax
- Less: Income Tax (28% for companies)
- = Net Profit after Tax

Cost of Sales:	`Opening Stock + Purchases + Carriage - Returns - Closing Stock`
Gross Profit %:	`(Gross Profit / Sales) x 100`
Net Profit %:	`(Net Profit / Sales) x 100`
Mark-up %:	`(Gross Profit / Cost of Sales) x 100`

2. Balance Sheet (Statement of Financial Position)

Shows financial position at a specific date.
Assets = Equity + Liabilities

Assets

- Non-current assets (> 1 year): fixed assets (at carrying value), investments
- Current assets (< 1 year): inventories, debtors, bank, cash, prepaid expenses
- Carrying value = Cost - Accumulated Depreciation

Equity & Liabilities

- Equity: ordinary share capital + retained income (accumulated profits)
- Non-current liabilities: loans (> 1 year)
- Current liabilities: creditors, bank overdraft, accrued expenses, SARS (income tax)

3. Cash Flow Statement

Shows movement of cash over a period. Three sections:

- Operating activities: cash from day-to-day operations (profit adjusted for non-cash items)
- Investing activities: purchase/sale of fixed assets and investments
- Financing activities: loans taken/repaid; shares issued; dividends paid

TIP Depreciation is added BACK to profit in operating activities because it is a non-cash expense. INCREASE in current assets = cash OUTFLOW. DECREASE in current assets = cash INFLOW.

4. Notes to Financial Statements

- Fixed assets note: cost, accumulated depreciation, carrying value for each asset

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Share capital note: number of shares, par value, total

- Debtors allowance: provision for bad debts adjustment
- Income tax: current year provision