GRADE 11 STUDY GUIDE | 2025

Financial Statements -- Companies

Accounting

1. The Income Statement

Also called the Statement of Comprehensive Income. Shows revenue, expenses and profit over a financial period.

- Sales / Revenue: income from main business activities
- Cost of Sales: direct cost of goods sold (opening stock + purchases - closing stock)
- Gross Profit = Sales - Cost of Sales
- Other Income: rent income, interest income, dividends received
- Operating Expenses: admin costs, selling costs, depreciation
- Operating Profit = Gross Profit + Other Income - Operating Expenses
- Interest on Loan: deducted from operating profit
- Net Profit before Tax = Operating Profit - Interest Expense
- Income Tax: usually a percentage of net profit
- Net Profit after Tax = Net Profit before Tax - Income Tax

2. The Balance Sheet (Statement of Financial Position)

- Non-current Assets: items owned for more than 1 year (property, vehicles, equipment, accumulated depreciation)
- Current Assets: cash, debtors, inventory, prepaid expenses; expected to be used within 1 year
- Equity: share capital + retained income (dividends declared are deducted)
- Non-current Liabilities: long-term loans (> 1 year)
- Current Liabilities: creditors, bank overdraft, accrued expenses, SARS (tax payable), dividends payable
- Balance Sheet must balance: Total Assets = Total Equity + Total Liabilities

3. Notes to the Financial Statements

Include: share capital note, retained income note, property/plant/equipment note (showing cost, accumulated depreciation, carrying value), and debtors/creditors allowance accounts.

4. Depreciation Methods

Straight-line: Annual dep = (Cost - Residual value) / Useful life

Reducing-balance: Annual dep = Carrying value x Rate%

KEY: Carrying value = Cost - Accumulated Depreciation. Never depreciate below residual/scrap value.

5. Adjustments and Pre-adjustment Trial Balance

- Accrued expenses: expense incurred but not yet paid (debit expense, credit accrued liability)
- Prepaid expenses: paid in advance (debit prepaid asset, credit expense)
- Accrued income: earned but not yet received (debit accrued receivable, credit income)
- Income received in advance: received but not yet earned (debit income, credit deferred liability)
- Depreciation: debit depreciation expense, credit accumulated depreciation
- Bad debts: debit bad debts expense, credit debtors control
- Provision for bad debts adjustment: increase or decrease provision to desired %