

# Grade 12 Accounting: Financial Statements Study Guide

Grade 12 | Accounting | Study Guide | 2024

*Free Study Resources for South African Matric Learners*

## 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

|                        |                                                                                                     |
|------------------------|-----------------------------------------------------------------------------------------------------|
| <b>Cost of Sales:</b>  | $\text{Opening Stock} + \text{Purchases} + \text{Carriage} - \text{Returns} - \text{Closing Stock}$ |
| <b>Gross Profit %:</b> | $(\text{Gross Profit} / \text{Sales}) \times 100$                                                   |
| <b>Net Profit %:</b>   | $(\text{Net Profit} / \text{Sales}) \times 100$                                                     |
| <b>Mark-up %:</b>      | $(\text{Gross Profit} / \text{Cost of Sales}) \times 100$                                           |

## 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



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

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