**LESSON 5**

**Preparation of final accounts-Income Statement and Statement of Financial Position**

**Statement of comprehensive income**-

formerly known as the income statement basically represents the performance of a business. It is the sales (revenue) for the business less all the expenses incurred to generate the sales. The end product is ether profit or loss.

### Reasons for preparing the statement of comprehensive income are:

1. To compare the actual profit to the expected profits
2. For planning purposes i.e. to identify areas that need attention in future
3. To obtain funds from lenders based on one’s profitability
4. To inform prospective owners on the performance
5. In computation of taxes to ensure that the correct amount is remitted to the tax authorities.

### Format

### Xyz

### Income Statement

### For the period ended xxxxxx

###### ShSh

T E X T

Sales xx

less return inwards (xx)

**net sales**  Xxx

less **cost of sales**

S T U D Y

*opening stock* xx

**add** purchases xx

carriage inwards xx

xx

**less** return outwards (xx)

*net purchases* xx

goods available for sale xxx

**less** *closing stock* (xx)

cost of sales Xxx

**gross prot** Xxx

**add** other incomes

discount received Xxx

prot on disposal of assets Xxx

income from investments Xxx

other incomes e.g. interest received from bank Xxx Xxx

###### less expenses

administrative expenses xx

operating expenses xx

selling and distribution expenses xx

total expense (xxx)

###### net prot for the period

###### **Xxx**

**Notes**

Carriage inwards forms part of the cost of sales. It represents the amount paid for the transportation of goods into the business premises before they are sold.

1. Carriage outwards is a business expense. It represents the amount paid to transport goods to the customer’s premises.
2. All costs incurred to put the goods into saleable condition form part of the cost of sales e.g. cost of transportation to the warehouse, insurance while goods are on transit to the warehouse, warehouse expenses.
3. In case the net sales are less than cost of sales the difference is referred to as gross loss.
4. If the expenses exceed the gross profit, the difference is referred to as net loss
5. Other incomes represent that portion of revenues not directly related to the main business e.g. commissions, rent receivable e.tc

**Statement of financial position**- formerly known as the balance sheet is a statement which shows the assets of a business at a given point in time and the claim thereof against the assets. the claims can either be by the capital injected or liabilities to third parties

### The format of the statement of financial position

###### Xyz company Ltd

###### Statement of financial position

###### As at xxxxx

**Sh** **Sh** **Sh**

**Non-current assets** Cost Accumulated Depreciation

NBV

land and buildings xx xx xx

plant and equipment xx xx xx

fixtures, furniture and fiittings xx xx xx

|  |  |  |  |
| --- | --- | --- | --- |
| motor vehicles | **Xx** | **xx** | xx |
|  |  |  |  |
| Total non-current assets |  |  | xxx |
| Current Assets  stock debtors | xxx | xx |  |
| less provision for doubtful debts | (xxx) |  |  |
| prepayments |  | xxx  xxx |  |
| short term investments |  | xxx |  |
| cash at bank |  | xxx |  |
| cash in hand |  | xxx |  |
| total current assets |  | xxx |  |
| **less Current Liabilities**  bank overdraft | xxx |  |  |
| creditors accruals | xxx xxx | (xxx) |  |
| **net current assets** |  |  | xxx |
| **total assets** |  |  | **yyyyy** |

Capital xx

Net Profit xx

Owners funds xx

Non-current liabilities

Loans xx

Debentures xx xx

**yyyyy**