Assets (Normal Balance: Debit)

Bank

- *Increases:* Cash sales, capital introduced, loans received, asset disposal
- *Decreases:* Payments to suppliers, wages, rent, loan repayments, dividends

Trade Receivables

- *Increases:* Credit sales
- *Decreases:* Cash received from customers, discounts allowed, bad debts, sales returns

Inventory

- *Increases:* Goods purchased, production completed
- *Decreases:* Cost of sales, shrinkage, write-downs, theft, year-end adjustments (closing inventory)

Prepayments

- *Increases:* Advance payments (e.g. rent, insurance)
- *Decreases:* Expense period elapses (time passes)

PPE (e.g. Vehicles, Equipment, Buildings)

- *Increases:* Asset purchases, revaluations (gain)
- *Decreases:* Depreciation, impairment, disposals, revaluations (loss)

Provision for Doubtful Debts (Contra Asset)

- *Increases (debit expense):* Bad debt expense increases provision
- *Decreases:* Debt written off against provision

Liabilities (Normal Balance: Credit)

Trade Payables

- *Increases:* Purchases on credit
- *Decreases:* Payments to suppliers, purchase returns, discounts received

Accruals

- *Increases:* Expenses incurred but unpaid
- *Decreases:* Settled or reversed accruals

Loans Payable

- *Increases:* New loans received
- *Decreases:* Loan repayments (principal only)

VAT Payable

- *Increases:* Output VAT on sales
- *Decreases:* Input VAT on purchases, VAT paid to tax authority

Provision for Warranties or Lawsuits

- *Increases (debit expense):* Estimated future costs increase provision
- *Decreases:* Actual costs paid, provision release

Equity (Normal Balance: Credit)

Share Capital

- *Increases:* Issuance of shares
- *Decreases:* Share buybacks (rare in basic exams)

Retained Earnings

- *Increases:* Net profit, prior period adjustments
- *Decreases:* Net loss, dividends paid, correction of errors reducing prior profits

Drawings (Contra-equity)

- *Increases:* Owner withdrawals (cash or goods)
- *Decreases:* Repayments by owner or offset with profits

Income / Revenue (Normal Balance: Credit)

Sales Revenue

- *Increases:* Sales of goods/services
- *Decreases:* Sales returns, discounts allowed

Interest Income

- *Increases:* Earned on investments/deposits
- *Decreases:* Corrections or reversals

Rental/Commission Income

- *Increases:* Income earned from renting assets or commissions
- *Decreases:* Refunds, overstatements

Expenses (Normal Balance: Debit)

Wages and Salaries

- *Increases:* Employee work performed
- *Decreases:* Reversals, accrual corrections

Rent Expense

- *Increases:* Rent due for the period
- *Decreases:* Prepaid rent or adjustments

Depreciation

- *Increases:* Scheduled asset depreciation
- *Decreases:* Revaluation gains or overstatement corrections

Cost of Sales

- *Increases:* Goods sold
- *Decreases:* Inventory write-backs, returns in

Bad Debts

- *Increases:* Irrecoverable customer debts
- *Decreases:* Debt recovery

Year-End Adjustments and Corrections

Accrual Reversals

- Reverse previous accrual entry when expense is paid or accounted for in next period
- Decrease accrual liability and increase expense or asset account as appropriate

Inventory Adjustments (SPL Impact)

- Adjust closing inventory in cost of sales calculation (reduce expense if inventory increases, increase expense if inventory decreases)
- Opening inventory is an expense adjustment when starting a period

Correction of Errors

- Use suspense account or direct adjustments to correct mistakes in ledger balances
- Prior period errors affect retained earnings (adjust equity)

Disposal of Non-Current Assets

Asset Disposal

- *Increases:* Cash or receivable from sale
- *Decreases:* Carrying amount of asset disposed
- *Gain on disposal:* Credit income (profit), increases equity
- *Loss on disposal:* Debit expense (loss), decreases equity

Contra Entries

Contra between Receivables and Payables

- Reduce trade receivables and trade payables by the same amount when customer is also supplier
- No cash movement but reduces both ledger balances

1 Statement of Financial Position (SFP)

Definition: The **Statement of Financial Position** (SFP) is a primary statement that shows the financial position of a business at a point in time. This includes the assets owned, liabilities owed, and the capital/equity balance. The Statement of Financial Position is sometimes referred to as the "Balance Sheet".

The "financial position" can be defined as a company's net worth (Assets less liabilities). The statement of financial position shows the book value or **carrying amount** at a particular date of the entity, presenting its:

- Assets (resources controlled)
- Liabilities (obligations owed)
- Owners' Capital or Equity (how the business is financed)

IAS 1 *Presentation of Financial Statements* states that the statement of financial position is required to have the following items:

- Property, plant and equipment
- Intangible assets
- Inventories
- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables
- Provisions
- Current tax liabilities
- Share capital and reserves

Like the statement of profit or loss and other comprehensive income, the statement of financial position of a sole trader would be different from that of a limited company. The sole trader's version of the SFP follows the same principles but has more detail presented and a different capital/equity section.

Example 7: Sole Trader vs. Company Statement of Financial Position

This example shows the statement of financial position for a sole trader business and a company.

Sole Trader Statement of Financial Position	Company Statement of Financi
Non-current assets Property, Motor Vehicles (Cost, Depreciation, Carrying value broken down for each)	**Non-current assets** Property, plant and equipment (tot Intangibles (total)
Current assets Inventories (least liquid, always first) Receivables (detailed with allowance for receivables, prepayments) Cash at bank and in hand (includes petty cash, savings; overdraft separate)	**Current assets** Inventories Trade and other receivables (single Cash and cash equivalents (single b
Capital Capital brought forward Profit for the year Less: drawings	**Equity** Share capital (always first) Retained earnings Other reserves
Non-current liabilities Bank loan (each liability shown)	**Non-current liabilities** Loan capital and other non-current
Current liabilities Payables (each balance shown, e.g., Provision, Accruals, Sales tax payable)	**Current liabilities** Total current liabilities (detailed in

Description of SFP Components:

- **Non-current assets:** Assets purchased for use within the business to generate profits for more than 12 months.
  - **Sole Trader:** Each asset category (e.g., Property, Motor Vehicles) shown separately with cost, accumulated depreciation, and carrying amount.
  - **Company:** One total for property, plant and equipment, and one total for intangibles, with detail in notes.
- **Inventories:** Value of goods held for sale or use in manufacturing.
  - **Sole Trader:** May show breakdown in the SFP itself.
  - **Company:** Detailed breakdown in a note to the SFP.
- **Liquidity ranking of current assets:** Inventory is always presented first (least liquid), followed by receivables and cash (most liquid).
- **Receivables:**
  - **Sole Trader:** Shows receivables balance, allowance for receivables, and other receivables (e.g., prepayments) separately.
  - **Company:** Trade and other receivables included as a single balance. Trade receivables are amounts owed by credit customers and allowance against them; other receivables include prepayments and other income receivables.
- **Cash at bank and in hand / Cash and cash equivalents:**
  - **Sole Trader:** Bank account, petty cash. Savings account might be the extent.
  - **Company:** Various balances falling under cash and cash equivalents (details in Statement of Cash Flow chapter). Single balance in SFP, details in notes. Overdraft never included here; shown separately in current liabilities.
- **Capital brought forward / Share capital:** The most significant difference is the capital (sole trader) or equity (company) section.
  - **Sole Trader:** Shows breakdown of capital brought forward + profit for the year - drawings.
  - **Company:** Replaced with share capital, retained earnings, and other reserves. Share capital always presented first, followed by reserves.
- **Non-current liabilities:** Liabilities settled (paid) in more than 12 months (e.g., long-term loans).
  - **Sole Trader:** Each liability shown in the SFP.
  - **Company:** Loan capital and other non-current liability categories (e.g., provisions), detailed breakdown in notes.
- **Current liabilities:** Liabilities settled (paid) in less than 12 months (e.g., overdraft, trade payables, accruals).
  - **Sole Trader:** Each balance shown on the SFP.
  - **Company:** One total shown, content disclosed in notes.

1.1 Interrelationship between SPL&OCI and the SFP

There are two sides to every accounting entry, explaining the links between the Statement of Profit or Loss and Other Comprehensive Income (SPL&OCI) and the Statement of Financial Position (SFP). Several adjustments may affect both statements:

- **Profit for the year:** Transferred to the equity section of the Statement of Financial Position.
- **Gain on revaluation of Property, plant and equipment:** Recorded in the Statement of Financial Position (DR PPE), with a corresponding credit to Revaluation surplus (SPL&OCI).

- **Depreciation charged:** Recorded in both statements (DR Depreciation Expense in SPL&OCI, CR PPE – Accumulated Depreciation in SFP).
- **Irrecoverable debt:** When written off (SPL), it reduces the receivables balance (SFP).
- **Sale and assets:** When a sale (SPL) is recorded, it creates a receivables balance or increases cash (SFP).
- **Purchase and liabilities:** When a purchase (SPL) is recorded, it creates a payables balance or decreases cash (SFP).
- **Closing inventory:** When closing inventory (SPL) is recorded, it is also recorded in Current assets (SFP).
- **Allowance for irrecoverable debts:** When the allowance for irrecoverable debts (SFP) balance is adjusted, the opposite entry goes to irrecoverable debts expense (SPL).

Activity 2: Matching SPL&OCI and SOFP Entries

Match the SPL&OCI entries on the left-hand side with their corresponding SFP entry on the right.

- Income tax expense → Current tax liability
- Other comprehensive income → Revaluation surplus
- Closing inventory in cost of sales → Closing inventory in current assets
- Irrecoverable debt written off → Receivables
- Irrecoverable debt-movement in allowance for receivables → Allowance for receivables
- Depreciation expense → Accumulated depreciation
- Movement in provision → Provisions

1.2 Reserves

The main difference in the format of an SFP for a sole trader and company is in the capital or equity section. The sole trader's Statement of Financial Position shows the breakdown of the capital balance as capital brought forward + profit for the year − drawings. The single owner of the business owns the resulting closing balance. However, a company may have many owners or ordinary shareholders rather than a single owner. The amounts that they own are summarised in share capital and reserves.

Reserves are balances representing gains or losses belonging to the business owners. They can be split into two types:

- **Statutory reserves:** Reserves that a company must set up by law and are not available to be distributed as dividends (e.g., Share premium).
- **Non-Statutory reserves:** Made up of profits that can be distributed as dividends (e.g., Retained earnings).

These reserve balances are shown along with share capital in the equity section of the statement of financial position.

- **Retained Earnings:** The main reserve of a business entity, representing accumulated post-tax profits. It is a distributable reserve which can be used to pay a dividend to ordinary shareholders.
- **Share Premium:** Created when new shares are issued at a price above their par value. Recognized as part of capital, it is a non-distributable reserve (cannot pay dividends) but can be used to fund a bonus issue of shares.
- **Revaluation Surplus:** Represents the increase in value of property, plant and equipment. It is an unrealised gain (asset not sold), recognized as part of capital and is a non-distributable reserve (cannot pay dividends).
- **Other Reserves:** Can be created for various uses and in line with accounting standards, but are outside the scope of this course.

Example 8: Statement of Changes in Equity (Tishla Co)

Tishla Co had the following balances at 1 January 20X8:

- Share capital $10,000
- Share premium $3,000
- Retained earnings $54,860
- Revaluation surplus $6,000

Tishla Co made a profit of $12,800 for the year, recognised a revaluation surplus of $4,000 and paid a dividend of $2,000. In addition, a 1-for-5 bonus issue of shares was made from the share premium account.

The completed statement of changes in equity is as follows:

	Share capital ($)	**Share premium ($)**	**Revaluation surplus ($)**	**Re**
At 1 January 20X8	10,000	3,000	6,000	
Dividends				
Total comprehensive income for the year			4,000	
Issue of share capital (Bonus Issue)	2,000	(2,000)		
At 31 December 20X8	**12,000**	**1,000**	**10,000**	

2 SFP – Disclosures

Purpose of Disclosures

Disclosures in the Statement of Financial Position are essential for users of financial statements to understand the financial information. The SFP for a company typically includes only totals, with all detail provided in disclosure notes. The purpose of financial statements is to provide information about a business entity's financial position, financial performance, and cash flows. A full set of disclosures is required to meet the qualitative characteristic of understandability.

Required Disclosures for SFP Items:

Disclosures are required for the following items under the statement of financial position (specific requirements are detailed in their respective chapters):

- Property, plant and equipment
- Intangible assets
- Provisions
- Events after the reporting period
- Inventories

Similar to preparing the Statement of Profit or Loss, the individual assets, liabilities, and capital ledger accounts from the final trial balance are transferred and presented in the Statement of Financial Position. The statement of financial position is the final product of the accounting system.

Example 9: Sole Trader Statement of Financial Position (Cake Catering)

Below shows the final trial balance of Cake Catering and the completed Statement of Financial Position. Each asset, liability, and capital ledger account balance is transferred to the statement.

Cake Catering Trial Balance for the year ended 31 December 20X2

Account	**DR ($)**	**CR ($)**
Property at cost	145,250	
Property – accum depn at 31 Dec 20X2		31,955
Motor vehicles at cost	25,420	
Motor vehicles – accum depn at 31 Dec 20X2		9,785
Computer and office equipment – at cost	12,510	
Computer and office equipment – acc. depn at 31 Dec 20X2		5,798
Shop fixtures and fittings – at cost	33,841	
Shop fixtures and fittings - acc. depn at 31 Dec 20X2		11,463
Inventory – opening at 1 Jan 20X2	37,412	
Receivables control account	35,091	
Allowance for irrecoverable debts at 31 Dec 20X2		4,750
Prepayments at 31 Dec 20X2	8,450	
Cash at bank	10,674	
Capital account at 1 Jan 20X2		172,127
Drawings	25,410	
Capital introduced		4,000
Bank loan		26,950
Provision at 31 Dec 20X2		800
Payables control account		36,741
Accruals at 31 Dec 20X2		6,610
Sales tax payable		1,473
Sales		608,989
Purchases	420,974	
Rent	26,700	
Wages	86,724	
Finance cost	1,693	
Telephone, postage and stationery	2,777	
Other operating expenses	29,130	
Depreciation expense	15,176	
Irrecoverable debt expense	4,209	
Total	**921,441**	**921,441**

Note: The closing inventory of Cake Catering is $39,125.

Cake Catering Statement of Financial Position as at 31 December 20X2

	Cost ($)	Depreciation ($)	NBV ($)
Non-current assets			
property	$145,250		
Less: Less Property Depreciation		($31,955)	
			$113,295
motor vehicles	$25,420		
Less: Motor Vehicles Depreciation		($9,785)	
			$15,635
computer and office equipment	$12,510		
Less: Computer and office equipment Depreciation		($5,798)	
			$6,712
shop fixtures and fittings	$33,841		
Less: Shop fixtures and fittings Depreciation		($11,463)	
Total NCA	$217,021	($59001)	$158,020
Current assets			
inventory	$39,125		$39,125
receivables	$35,091		
Less: Allowance for irrecoverable debts		($4,750)	
			$30,341
prepayments	$8,450		$8,450
cash at bank and in hand	$10,674		$10,674
Total Current Assets	$93340	($4750)	88,590
Total assets			$246,610
Capital			
capital brought forward	$172,127		$172,127
capital introduced	$4,000		$4,000
profit for the year	$23,319		
Less: Drawings		($25,410)	
Total Capital	$199446	$25410	$174,036
Non-current liabilities			
bank loan	$26,950		$26,950
Total Non-current Liabilities	$26950	$0	$26,950
Current liabilities			
provision	$800		$800
payables	$36,741		$36,741
accruals	$6,610		$6,610
sales tax payable	$1,473		$1,473
Total Current Liabilities	$45624	$0	$45,624
Total Capital and Liabilities			$246,610

Cake Catering Statement of Financial Position as at 31 December 20X2

	Cost ($)	Depreciation ($)	NBV ($)
Non-current assets			
Property	145,250	31,955	113,295
Motor Vehicles	25,420	9,785	15,635
Computer and office equipment	12,510	5,798	6,712
Shop fixtures and fittings	33,841	11,463	22,378
Total NCA	217,021	59,001	158,020
Current assets			
Inventory			39,125
Receivables	35,091		
Less: allowance for irrecoverable debts		(4,750)	30,341
Prepayments			8,450
Cash at bank and in hand			10,674
Total Current Assets			88,590
Total assets			**246,610**
Capital			
Capital brought forward			172,127
Capital introduced			4,000
Profit for the year			23,319
Less: drawings			(25,410)
Total Capital			174,036
Non-current liabilities			
Bank loan			26,950
Current liabilities			
Provision			800
Payables			36,741
Accruals			6,610
Sales tax payable			1,473
Total Current Liabilities			45,624
Total Capital and Liabilities			**246,610**

3 Company Statement of Financial Statement

Example 10:

This section would contain an example of a company's Statement of Financial Position

3.1 Introduction to Statement of Profit or Loss and Other Comprehensive Income (SPL&OCI)

The SPL&OCI is a primary financial statement that reports an entity's financial performance. It presents performance in two main ways:

- **Profit or Loss:** This is the traditional measure, calculated as total income less expenses.
- **Other Comprehensive Income (OCI):** This includes income, gains, expenses, or losses that are not recognized in profit or loss but are instead recognized directly in equity reserves (e.g., a revaluation surplus).

Presentation Formats (IAS 1):

According to *IAS 1 Presentation of Financial Statements*, the SPL&OCI can be prepared either as:

- A **single statement of comprehensive income**.

- **Two separate statements:**
  - A Statement of Profit or Loss.
  - A Statement of Other Comprehensive Income (which starts with the profit or loss for the period).

Key Components & Comparison: Sole Trader vs. Company

Component	Description
Sales/Revenue	Income from ordinary operating activities (selling goods/services).
Cost of Goods Sold/Sales	Expenses directly related to goods sold (e.g., opening/closing inventory, purch
Gross Profit	Revenue surplus after deducting Cost of Sales; profit from trading activities.
Other Income	Income from non-trading activities (e.g., interest earned, rental income).
Expenses	Costs incurred in day-to-day business operations.
Finance Costs	Interest payable on loans and loan notes.
Income Tax Expense	Tax charged on the entity's profit for the year.
Net Profit / Profit for the year	Excess income after all business expenses; transferred to capital (or reduces ca
Other Comprehensive Income (OCI)	Profits or losses not reflected in Profit or Loss, but in reserves (e.g., revaluatio
Total Comprehensive Income	Sum of profit or loss for the period and Other Comprehensive Income.

4 Revenue Recognition (IFRS 15: Revenue from Contracts with Customers)

IFRS 15 Revenue from Contracts with Customers provides guidance on recognizing revenue from an entity's ordinary activities (selling goods or providing services).

Definitions:

- **Revenue:** Income arising during an entity's ordinary activities.
- **Income:** Increase in economic benefits during the accounting period (inflows of assets or decreases of liabilities).
- **Economic Benefit:** Refers to cash, receivables, or other assets.

Revenue is recorded at the **fair value** of the consideration (cash or receivables) received or receivable, after accounting for trade discounts.

Five-Step Model for Revenue Recognition:

IFRS 15 outlines a five-step process for revenue recognition:

1. **Identify the Contract with the Customer:**
   - A **contract** is an agreement between two or more parties that creates enforceable rights and obligations.
   - Revenue is recognized **only** if the contract meets **all** of these criteria:
     - Approved by parties (written or oral).
     - Identifies each party's rights.
     - States payment terms.
     - Has commercial substance.
     - Supplier expects to collect consideration.
2. **Identify the Performance Obligations in the Contract:**
   - A **performance obligation** is a promise to transfer a distinct good/service (or a series of distinct goods/services transferred similarly).
   - A good or service is **distinct** if:
     - The customer can benefit from it on its own or with available resources.

  - The promise to transfer it is separately identifiable from other goods/services in the contract.
- If not distinct, combine into a **single** performance obligation.

3. **Determine the Transaction Price:**
   - The **transaction price** is the amount of consideration an entity expects to be entitled to (excluding sales taxes).
   - Considerations when determining transaction price:
     - Time value of money (if contract term ≥ 1 year).
     - Fair value of any non-cash consideration.
     - Estimates of variable consideration (e.g., discounts).
     - Consideration payable to the customer (treated as a reduction unless unrelated).
4. **Allocate the Transaction Price to the Performance Obligation:**
   - The transaction price is allocated to all performance obligations based on their **stand-alone selling price**.
   - **Stand-alone selling price:** The price at which the good/service would be sold separately.
   - The best evidence is the **observable** price when sold separately; otherwise, it must be estimated.
   - Allocation is made at the **beginning** of the contract and is not adjusted for later changes.
5. **Recognize Revenue:**
   - Revenue is recognized when (or as) a performance obligation is satisfied by transferring the promised good/service (an asset) to the customer.
   - An asset is transferred when (or as) the customer gains **control** of the asset.
   - Satisfaction can occur either **over time** or **at a point in time**.

4.0.1 Income Tax

All businesses pay taxes on their profits, but the calculation and recognition differ based on the business type and country.

- **Sole Trader:** Tax is a personal liability of the owner and is *not* recognized in the sole trader's financial statements.
- **Company:** A company is a separate legal entity liable for tax on its profit for the year. This liability is recognized in the financial statements (accrual basis), usually paid in the following year. International accounting standards refer to this as **Income Tax**.

Calculation of Income Tax Expense for the Year:

The income tax expense for the year is calculated as:

$$\text{Income Tax Expense} = \text{Current Tax Estimate for the year} + \text{Under/(Over) provision for previous year}$$

1. **Calculate the Current Tax Estimate for the year:**
   - This is the estimated tax on current year's profits.
   - **Double Entry (Estimated Current Year Tax):**
     - DR Income Tax Expense (Expense increases)
     - CR Current Tax Payable (Liability increases)
   - The estimated figure may differ from the final amount determined by the tax authority.
2. **Calculate the Under or Over Provision:**
   - This arises when the actual tax for a prior year differs from the estimate.
   - **Under-provision** (estimate too low):
     - DR Income Tax Expense (Expense increases)

  - CR Current Tax Payable (Liability increases)
- **Over-provision** (estimate too high):
  - DR Current Tax Payable (Liability decreases)
  - CR Income Tax Expense (Expense decreases)
- These differences are adjusted in the **current year's** tax charge, as prior year SPL&OCI cannot be adjusted.

3. **Payment of Income Tax:**
   - When the actual tax is paid.
   - **Double Entry (Income Tax Payment):**
     - DR Current Tax Payable (Liability reversed)
     - CR Bank (Cash reduced)

Example: Limo Co Income Tax Expense (Example 2)

- **20X8:** Estimated tax: \$30,000; Actual liability settled in 20X9: \$32,000.
  - This resulted in an **under-provision of \$2,000** (\$32,000 actual - \$30,000 estimate).
- **20X9:** Estimated current tax: \$35,000.

Income Tax Expense for 20X9:

- Current tax estimate for the year: \$35,000
- Add: Under-provision from prior year: \$2,000
- **Total Income Tax Expense for 20X9:** \$37,000

4.1 Other Comprehensive Income (OCI)

OCI represents profits or losses not reflected in the Statement of Profit or Loss but instead recognized directly in equity reserves.

Revaluation Surplus (IAS 16 Property, Plant and Equipment):

- *IAS 16* allows assets to be carried at **cost** (less depreciation/impairment) or **fair value** (less depreciation/impairment).
- When the fair value option is chosen, a **revaluation** is performed.
- The revaluation gain (the difference between fair value and the asset's carrying amount) is recorded as a **Revaluation Surplus**.

Accounting for Revaluation (Example 4):

- **Initial Scenario:** Atkorp Co's building cost \$300,000 (1 Jan 20X5), useful life 50 years.
- **Valuation Date:** 30 June 20X8, valued at \$700,000.
- **Accumulated Depreciation (at valuation date):** \$300,000 / 50 years × 3.5 years (1 Jan 20X5 to 30 June 20X8) = \$21,000.
- **Carrying Amount (at valuation date):** \$300,000 - \$21,000 = \$279,000.
- **Revaluation Surplus:** Fair Value (\$700,000) - Carrying Amount (\$279,000) = **\$421,000**.
- **Double Entry for Revaluation:**
  - DR Building cost (asset increases) \$400,000 (\$700,000 new cost - \$300,000 old cost)

  - DR Building accumulated depreciation (removes balance) $21,000
  - CR Revaluation surplus (equity increases) $421,000

- This **Revaluation Surplus of $421,000** is recognized as **Other Comprehensive Income** in the SPL&OCI.

4.2 Disclosure Requirements (IAS 1)

Disclosures are notes that provide more detailed information for the figures in the financial statements, aiding user understanding.

- **Sole Trader:** Minimal disclosures, at proprietor's discretion.
- **Company:** Stricter rules due to governance and legislation, varying by country.

Specific Disclosures Required by IAS 1 (Examinable Syllabus):

These items *must* be disclosed on the SPL&OCI or in its notes:

- Revenue
- Finance costs
- Share of profits and losses of associates
- Tax expense
- Components of other comprehensive income

Other Items (Can be on SPL&OCI or in notes):

- Write down of inventory
- Write down and disposals of property, plant and equipment
- Litigation settlements
- Other reversals of provisions

5 Sole Trader Statement of Profit or Loss Example

The **trial balance** is the primary source for preparing a sole trader's Statement of Profit or Loss. Each income and expense ledger account balance is closed off and transferred to the Profit or Loss ledger account. The individual balances are then presented in the Statement of Profit or Loss.

Example: Cake Catering (Example 5)

Below is an illustration of Cake Catering's trial balance and its corresponding Statement of Profit or Loss for the year ended 31 December 20X2.

Cake Catering Trial Balance for the year ended 31 December 20X2

Account	**DR ($)**	**CR ($)**
Property at cost	145,250	
Property – accum depn at 31 Dec 20X2		31,955
Motor vehicles at cost	25,420	
Motor vehicles – accum depn at 31 Dec 20X2		9,785
Computer and office equipment – at cost	12,510	
Computer and office equipment – acc. depn at 31 Dec 20X2		5,798
:Shop fixtures and fittings – at cost	33,841	
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Capital introduced		4,000
Bank loan		26,950
Provision at 31 Dec 20X2		800
Payables control account		36,741
Accruals at 31 Dec 20X2		6,610
Sales tax payable		1,473
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Rent	26,700	
Wages	86,724	
Finance cost	1,693	
Telephone, postage and stationery	2,777	
Other operating expenses	29,130	
Depreciation expense	15,176	
Irrecoverable debt expense	4,209	
Total	**921,441**	**921,441**

Note: The closing inventory of Cake Catering is $39,125.

Cake Catering Statement of Profit or Loss for the year ended 31 December 20X2

	$	**$**
Sales		608,989
Costs of goods sold:		
Opening inventory	37,412	
Purchases	420,974	
	458,386	
Less: Closing inventory	(39,125)	
		(419,261)
Gross profit		**189,728**
Expenses:		
Rent	26,700	
Wages	86,724	
Finance cost	1,693	
Telephone, postage and stationery	2,777	
Other operating expenses	29,130	
Depreciation expense	15,176	
Irrecoverable debt expense	4,209	
		(166,409)
Net profit		**23,319**

2.1 Systems of Linear Equations