CHAPTER NINE

FINAL ACCOUNTS: STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

CHAPTER OUTLINE

- Statement of comprehensive income
- Revenue and capital expenditures
- Format for statement of comprehensive income

Learning Objectives:

At the end of this chapter, the student should be able to:

- Differentiate between revenue and capital expenditures
- Identify items treated in Statement of Profit or Loss and other comprehensive income and statement of financial position.
- Explain the relationship between subsidiary books, ledger, trial balance and final accounts.
- Calculate the cost of goods sold.
- Determine gross profit and net profit.
- Prepare statement of comprehensive income.

9.1. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME: This is a report prepared to determine the profit or loss of an entity at the end of an accounting period. The summary of the income earned is recorded and compared with the expenses incurred. Recall that there is a difference between income earned and income received; so also between expenses incurred and expenses paid. If in doubt, then refer to the realization principle earlier discussed in this book. The difference between the income earned and expenses incurred is the profit or

loss of the business for the period. Expenses as mentioned above are of two types: revenue expenditure and capital expenditure. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE

9.2. REVENUE AND CAPITAL EXPENDITURES

(a) Revenue Expenditures: These are expenditures incurred whose benefits are consumed within an accounting period. They are mostly made for the day to day running of the business. Some of these revenue expenditures are more direct in nature as they affect cost of goods sold and therefore, are used to determine the gross profit of the business while those that are indirect in nature such as rent, rate, electricity, e.t.c are used to determine the net profit of the business.

In the treatment or preparation of statement of comprehensive income, only revenue expenditure is used. It is equally worthy of note that there are some non-revenue expenditures which may be expensed in the statement. Such expenditure includes immaterial or insignificant value expenditure such as the purchase of calculator, ruler, e.t.c. Though the benefit of such item may not be consumed in one accounting period, the business still writes it off as expense within one accounting period due to its small value as emphasized in materiality convention. In some entities, the management sets what is known as materiality limit so that all items whose costs are less than that limit, even when used for more than one accounting period, should be expensed in the year of acquisition.

(b) Capital expenditures: Theses are expenditures that are capital intensive in nature, used to procure assets that the business entity will use for more than one accounting period. Such expenditures are capitalized to the statement of financial position and not expensed in statement of comprehensive income. Since the assets purchased are used over a number of years to generate income, the cost is therefore recognized systematically over the number of years for which the associated benefits are consumed. This is in line with the matching concept. The entity at the entity of the matching concept.

the income earned is recorded and compared with the expenses lincuried. Having explained the difference between the capital and revenue expenditures, we can go on to have a wider discussion of the statement of comprehensive income. One primary aim of every business is to make profit. The book keeping process is necessitated because the businessman would

want to record every transaction relating to the business so as to determine how fruitful the business is at the end of the period. The book-keeping process provides the necessary information from which the businessman will be able to calculate profit earned or loss incurred by the business. The account which is primarily aimed at determining the profit or loss of the business is called Statement of Comprehensive Income, formerly known as Trading, Profit and Loss Account before the introduction of the International Financial Reporting Standard (IFRS). To prepare the statement of comprehensive income, the first task is to determine the gross profit i.e. turnover less cost of goods sold. The reader needs to understand the interplay of variables required to determine the cost of goods sold. It is computed as follows:

Opening stock	ee tix format of statement of profit or loss and
Add Purchases	: This referded to the least of the companies of the comp
Carriage Inwards	bought for resale into the pxce of business. It is
Total goods Available	bring PRE 91840 in 1199 Quantition that is nece X ary fi
Less: Closing stock	"E본건경, 남은 생각 등 다른 역 : 문명주, 중국인 리인, 회원이 다 로이 관리 (X) : i si
Cost of goods sold	ndecX 1* December, 2009.

To complete the double entry principle, the sales account is closed by debiting the sales account and crediting the trading account while the purchases account is credited with the balance therein and trading account debited. At this point, the closing value of the assets which was determined during the end of the period stock taking has no existing account; hence a new stock account is opened and debited with the value of the closing stock. The closing stock is brought into the calculation of the gross profit which is affected in the Trading Account, hence the credit entry for the closing stock should be in the Trading Account to complete the double entry principle. Note however, that the effect of crediting the trading account with the closing stock is a deduction from the purchases account which currently is directly deducted from the purchases in the trading account.

9.3. FORMAT FOR STATEMENT OF PROFIT OR LOSS AND OTHER **COMPREHENSIVE**

It is now ripe to draw up the statement of profit or loss and other comprehensive income by transferring all revenues to the credit side of the account and all expenses incurred for the year to the debit side of the statement of profit or loss and other comprehensive income (if 'T" format is adopted). At this level, we may not throw the full weight of the International Financial Reporting Standards as we will be looking at this statement as one prepared for internal use. The first part of the statement shows the trading activities aimed at determining the gross profit i.e. the excess of sales over the cost of goods sold. We may equally try to show the differences between the former presentation of the trading, profit and loss account and the current way of presenting the statement of profit or loss and other comprehensive income. The two formats will be displayed below, adopting the vertical format.

The last part of the statement of profit or loss and other comprehensive income is aimed at determining the net profit of the business.

See the format of statement of profit or loss and other comprehensive income (for internal use). Vertical format: xpensed in the statement of profit or loss and other comprehensive income (for internal use). Vertical format: xpensed in the statement of profit or loss and other comprehensive income (for internal use).

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Statement of profit or loss and other Comprehensive Income for the year ended 31st December, 2009.

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	Less Sales Returns	CVV	olduob and ess that that
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Printing & Stationery ecember, 2011.	rofit Before Tax X
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Net Profit (X) the short side of the Net Profit	.XXX the year from discontinuin
	TO DEBOVORT OF

IMPORTANT ISSUES TO NOTE

- **1. Closing Stock Valuation:** The principle is that the closing stock should be valued at cost or market value, whichever is less.
- 2. Carriage Inwards: This refers to cost of transport that the business incurs in moving goods bought for resale into the place of business. It is a cost incurred in order to bring the goods into a condition that is necessary for its sale, hence it should be charged to the trading account. It is added to the cost of purchases.
- **3: Wages:** If the wages is in respect of production or factory, it is charged against the trading account but if it is administrative wages, it is charged to profit or loss account. In a situation where wages and salaries form one account, it is debited to profit or loss section.

The International Financial Reporting Standard format of the Statement of Comprehensive Income is thus:

In the statement of profit the statement of profit in the statement of profit.

or loss and other compreherynagmoo SYX nto two separate statements

Statement of Profit or Loss and other Comprehensive Income for the year ended 31 December, 2012 end bas list income statement starting with profit (or loss) for the year from continuous A statement starting with profit (or loss) for the year from continuous A statement starting with profit (or loss) for the year.

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confirehensive income (with any gain or loss taken directly to the equity secXon of the staXimentCof financial position. (culled from sunavsA

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Other Income II expenses incurred for the year to	Xie debit side	Less eX
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Profit Before Tax to debymining the gross profit i.e. t		X
Income Tax expense will may equally try to show t	(X) 5500 A	(X)
Profit for the year from continuing operations in and		X
Loss for the year from discontinuing operations		(X)
Profit for the year come. The two formats will be dis	pixyed below, a	X
Other/comprehensive income	TANT ISSUES	IMPORT
Exchange difference from translation of	ng Stock Valu	I. Closii
foreign operations measure 1989 1999	d at cost of mXH	be value
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Cash flow hedges how many of the series to leave the series the series to leave the series to leave the series the series to leave the series the s	age Inwards:	2. CaKi
bought for resale into noitaulaver ytregorq no aniaD	moving gooks	incurs Xn
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ent pension plans 100000 prills 1941 6900 pris 9		
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comprehensive income noduction among systems is in respect of production among systems.	bs: If the wa(X)	3: W.(X)
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Total comprehensive income for the year itsuffactor in	loss accounX	profit Xr
(Culled from IFRS for Dummies, page 23)	it is debited to p	
Note that the format above is a comprehensive one f	or companies w	hich can
be modified to suit any other business entity.	rnational Finan	The Inte

In the standard under the revised IAS 1, one can split the statement of profit or loss and other comprehensive income into two separate statements Statement of Profit or Loss and other Comprehensive Incomo Political Statement of Profit or Loss and other Comprehensive Incomo Political Statement of Profit or Loss and other Comprehensive Incomo Political Statement of Profit or Loss and other Comprehensive Incomo Political Statement of Profit or Loss and other Comprehensive Incomo Political Statement of Profit or Loss and Other Comprehensive Incomo Political Statement of Profit or Loss and Other Comprehensive Incomo Political Statement of Profit or Loss and Other Comprehensive Incomo Political Statement of Profit or Loss and Other Comprehensive Incomo Political Statement of Profit or Loss and Other Comprehensive Incomo Political Statement of Profit or Loss and Other Comprehensive Incomo Political Statement of Profit or Loss and Other Comprehensive Incomo Political Statement of Profit or Profi

- 1. The income statement itself and
- 2. A statement starting with profit (or loss) for the year from continuing operation (or loss for the year from discontinuing operation as the case may be) and then disclosing the separate components of other comprehensive income (with any gain or loss taken directly to the equity section of the statement of financial position. (culled from IFRS for dummies). Detailed discussion of IFRS requirement will be considered in

advanced stage of this course.

Illustration 9.1.

From the following trial balance of Chibuike Enterprises, you are required to draw up a statement of Profit or Loss and other Comprehensive Income for the year ended 31st December, 2011 ber 31, 2013 was N80,640,000 vliontoel3

2,500	N	Insurance
8 <u>50</u> (2,850) Require(62,850)	and December 31 20	53,000
Sales: 1000,000 ne statement for the year en	30,000	
Purchases	angled Isint 400 dou	Going thro
Purchases Carriage Outward of the part that the electricity and the that the electricity and the electricity are that the electricity and the electricity are the ele	of cc002rehensive inco	statement of
Electricity there will realize that there yiiiiringla	1 2 500 LION	items/eft.un
Salaries and Wages	are noticed the street for the notice of the street for the street	liabilities. Si
Insurance companies of companies and an arms.	otstand ni 5,000 loxs	income but 6
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Fixtures	500 . 2	Illustration
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Creditors division to shood and more basis of	hose000529eserialrana	proprietor, w
Bank balance 25 392 Parallel Anna Canal	100	31, 2016.
Carriage Inwards	705,600 10,000	
Motor Vehicles	80,640 624,96	10,000
LeCapital 000 Aventory 000'4		6250
Return outwards	15.8	Motor Van
Add discount received 000,08	63,450	63,450

Solution 9.1.

Carriage Inwards

O Chibuike Enterprises'

Statement of Profit or Loss and other Comprehensive Income for the year ended 10 240

Motor Expenses Discount Allowed	22,432 er	nded 10,240 mber, 2011.	Exp. 4 ses
	17,888	1 840 12.160	53,000
Sales Less cost of Sales:	10,240		
Purchases Less Return Outwards		30,000 (250)	C MECENVED
LESS NCtarri outries		100	

Cost of Goods Sold		
Gross Profit Costs	of this course.	9 (29,850)
Administrative expenses		23,150
ke Enterprises, you :seaneqx3 ased	(X) - - (X) Indiance of Chibui	ustration 9.1.
carriage outwards signo isono is	g that balance of Chiban	ormane rollowilling
Licetificity of Class	D002nber, 2011.	awide a state of
Salaries and Wages		
Insurance he year from continuing of	2,500	
Net Profit	<u>50</u>	(2,850)
Net Profit e year from discontinuing		20,300

Going through the trial balance at the end of the preparation of the statement of comprehensive income, one will realize that there are some items left untouched such as capital, buildings, fixtures and other assets and liabilities. Such items are not treated in the statement of comprehensive income but exclusively in the statement of financial position.

Illustration 9.2 (des) on defined benefit

The following trial balance was extracted from the books of Anambra, a sole proprietor, whose business is known as Anambra enterprises as at December 31, 2016.

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comprehensive 000,0±	Dr		lotor(Vehiges
000;01:pmprehensive income for the year	N'000		apital 000'H
Capital omprehensive income for the year			eturn 000,422°
Motor Vanom IFRS for Dummies, page 23)	80,000)	224,000
Inventory the Gab Capove is a comprehe	65 000		
Balance at bank wit any other business ent	05,000		
Purchases	15,000		
Sales a standard under the revised IAS 1, of	640,000		olution 9.1:
Trade Receivables			892,000
Trade Receivables comprehension	116,000		arate statement
Trade Payables moon! Some demonstrate of the Company of the Compan	oss and of		Statem 042, 66 Pro
Rent and Rates e statement itself and bhrie	77 427		00,210
Salaries arement starting with 0.2 pod (no.	140 160		
General Expenses as for the Hear from di	17 000		
Motor Expenses	17,000		
Discount Allowed with any gain	10/210		
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Insurance (282) and if IFRS			15,840
On the state of th	7,840		de Saketium Outo

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Drawings	20,000	Y Y X
unelicudomoes	1,198,080	1,198,080
OSITION	ALEMENT OF FINANCIAL P	I S AND STATE OF

The following matter is to be taken into account:

I. Trade inventories as at December 31, 2013 was N80,640,000

Required:

Prepare the income statement for the year ended December 31, 2016.

Solution 9.2

Learning Objectives: best ardmana

ets. These assets are of long likelgologime. The

Statement of Profit or Loss and other Comprehensive Income for the Year

	Ended 31 December, 2016.	mulated depreciation.
This invariable	000'H 000'H	₩'000
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Less: Cost of Sales	the matching concept in account	
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Add: Purchases	ought for conversion 640,000	They have a short lie
	not more than one accounting	
	inge their form in th 705,600	v course of business.
Less: Closing Inventory		624,960 vables
Gross Profit	and the same property of the same of the s	267,040
Add discount received	OF FINANCIAL POSITION	15 840
mancial position of an	ement prepared to show the	The state of the state
statement of financial	nd of a cooling period of the	282,880
Less expenses:	nown as balance sheet is not pa	BL Alshard de Lonicod
Salaries Unicoming and T	140,160 nue ledger afte	simply a list of balance
Rent & Rates	48,000	141103 10 31131113333
General Expenses	17,888	Transfer or Parables
Motor Expenses	10,240 position is arranged to	For the statement of
	001,01 chapter two of this boo	equation earlier expla
Insurance meets end	1048,7 must balance of agree.	two sides of the state
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