STATEMENT OF COMPREHENSIVE INCOME

Grade 12 Accounting

Companies and Financial Statements

CHAPTER OUTCOMES

After studying this chapter, you should be able to:

✓ Explain the purpose of the Statement of Comprehensive Income

✓ Distinguish between income and expenses

✓ Calculate Gross Profit

✓ Calculate Operating Profit

✓ Calculate Net Profit Before Tax

✓ Calculate Net Profit After Tax

✓ Understand year-end adjustments

✓ Interpret profitability

✓ Answer NSC examination questions confidently

1. INTRODUCTION

Imagine that StudyPack Ltd operated for one year.

At the end of the year, shareholders want answers to questions such as:

- Did the company make a profit?
- How much income was earned?

- What expenses were incurred?
- Is the company performing well?

The Statement of Comprehensive Income provides these answers.

WHAT IS A STATEMENT OF COMPREHENSIVE INCOME?

Definition

The Statement of Comprehensive Income shows the financial performance of a company over a specific period.

In simple terms:

It tells us whether the company made a profit or a loss.

EXAM TIP

Many learners confuse:

Statement of Comprehensive Income

with

Statement of Financial Position

Remember:

Statement of Comprehensive Income

=

Performance

Statement of Financial Position

=

Financial Position

EASY MEMORY TRICK

Comprehensive Income

=

How the company performed

Financial Position

=

What the company owns and owes

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2. THE STRUCTURE OF THE STATEMENT

The Statement of Comprehensive Income follows a logical sequence.

SALES

↓

COST OF SALES

↓

GROSS PROFIT

↓

OTHER OPERATING INCOME

↓

OPERATING EXPENSES

↓

OPERATING PROFIT

↓

NON-OPERATING INCOME

↓

NON-OPERATING EXPENSES

↓

PROFIT BEFORE TAX

↓

INCOME TAX

↓

NET PROFIT AFTER TAX

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3. SALES

Sales represent income earned from the main activities of the business.

EXAMPLE

A clothing company sells:

10 000 shirts

at R200 each

Sales

=

10 000 × R200

=

R2 000 000

IMPORTANT

Sales are not profit.

Sales are income before expenses are deducted.

EXAM TRAP

Many learners assume:

Sales = Profit

WRONG

Expenses must first be deducted.

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4. COST OF SALES

Definition

The direct cost of obtaining or producing goods sold.

For a clothing company:

Cost of Sales may include:

- Purchase cost of clothing
- Import costs
- Direct costs

EXAMPLE

Sales

R2 000 000

Cost of Sales

R1 200 000

The company spent:

R1 200 000

to obtain the stock that was sold.

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5. GROSS PROFIT

Definition

The profit earned after deducting Cost of Sales from Sales.

FORMULA

Gross Profit

=

Sales – Cost of Sales

EXAMPLE

Sales

R2 000 000

Cost of Sales

R1 200 000

Gross Profit

=

R800 000

WHY IS GROSS PROFIT IMPORTANT?

It shows:

How efficiently the company sells its products.

INTERPRETATION

Higher Gross Profit generally indicates:

✓ Good pricing policy

✓ Good stock management

✓ Strong sales performance

EXAM QUESTION

A company's Gross Profit increased from:

R500 000

to

R750 000

What does this indicate?

Answer:

The company's trading activities improved.

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6. GROSS PROFIT PERCENTAGE

One of the most tested indicators.

FORMULA

Gross Profit %

=

Gross Profit

÷

Sales

×

100

EXAMPLE

Gross Profit

R800 000

Sales

R2 000 000

Gross Profit %

=

40%

INTERPRETATION

If Gross Profit % increases:

✓ Mark-up improved

✓ Pricing strategy improved

✓ Cost control improved

7. OTHER OPERATING INCOME

Income earned from normal operations other than sales.

EXAMPLES

Commission Income

Rent Income

Discount Received

Service Income

REAL NSC CONNECTION

Companies often earn:

Commission Income

Rent Income

These are commonly tested adjustment items.

EXAM TIP

Read carefully whether income is:

Outstanding

Received in advance

Accrued

Prepaid

These adjustments frequently appear in NSC examinations.

8. OPERATING EXPENSES

Expenses incurred during normal operations.

EXAMPLES

Salaries and wages

Directors' fees

Insurance

Advertising

Water and electricity

Telephone

Audit fees

EXAM TRAP

Directors' Fees

are

Operating Expenses

not liabilities.

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9. OPERATING PROFIT

Definition

Profit generated from normal operating activities.

FORMULA

Operating Profit

=

Gross Profit

+

Operating Income

-

Operating Expenses

EXAMPLE

Gross Profit

R800 000

Commission Income

R50 000

Operating Expenses

R300 000

Operating Profit

=

R550 000

INTERPRETATION

Operating Profit measures:

The effectiveness of daily business operations.

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10. NON-OPERATING INCOME

Income not generated from normal trading activities.

EXAMPLES

Interest Income

Profit on Sale of Asset

Investment Income

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11. NON-OPERATING EXPENSES

Expenses not related to daily operations.

EXAMPLES

Interest on Loan

Loss on Sale of Asset

IMPORTANT

Interest on Loan is usually classified separately because it relates to financing rather than operations.

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12. PROFIT BEFORE TAX

Formula

Operating Profit

+

Non-Operating Income

-

Non-Operating Expenses

=

Profit Before Tax

EXAMPLE

Operating Profit

R550 000

Interest Income

R20 000

Interest on Loan

R50 000

Profit Before Tax

=

R520 000

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13. INCOME TAX

Companies must pay tax on profits.

EXAM TIP

Income Tax is normally one of the last deductions before arriving at Net Profit After Tax.

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14. NET PROFIT AFTER TAX

This is one of the most important figures in company accounting.

FORMULA

Profit Before Tax

-

Income Tax

=

Net Profit After Tax

EXAMPLE

Profit Before Tax

R520 000

Tax

R120 000

Net Profit After Tax

=

R400 000

WHY IS THIS FIGURE IMPORTANT?

It affects:

✓ Retained Income

✓ Dividends

✓ Shareholders' Equity

✓ Financial indicators

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15. YEAR-END ADJUSTMENTS

This is where many learners lose marks.

OUTSTANDING INCOME

Income earned but not yet received.

EXAMPLE

Commission Income earned:

R10 000

Received:

R7 000

Outstanding:

R3 000

Add:

R3 000

to income.

INCOME RECEIVED IN ADVANCE

Money received for future periods.

EXAMPLE

Rent received for March and April next year.

This portion must be removed from current year income.

ACCRUED EXPENSES

Expense incurred but not yet paid.

EXAMPLE

Audit Fee

R8 000

still unpaid

Add:

R8 000

to expenses.

PREPAID EXPENSES

Expense paid in advance.

EXAMPLE

Insurance paid for next year.

Reduce current year's expense.

STUDYPACK EXAM TIP

Adjustment Questions

Always ask:

1. Has the income been earned?

2. Has the expense been incurred?

If yes:

Record it in the current year.

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16. DIRECTORS' FEES

A favourite examination adjustment.

IMPORTANT

Directors are paid according to contracts.

The examiner often provides:

- New directors appointed
- Directors resigning
- Different salary levels

Learners must calculate the correct expense.

COMMON MISTAKE

Ignoring:

Dates

Months

Salary changes

New appointments

These details are crucial.

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17. INTERPRETING PROFITABILITY

Examiners often ask:

Comment on profitability.

LOOK FOR:

Gross Profit %

Net Profit % on Sales

Operating Profit %

Net Profit After Tax

EXAMPLE COMMENT

Net Profit % increased from:

8%

to

12%

This indicates improved profitability and better expense control.

EXAM TIP

Always quote figures.

Bad Answer:

Profitability improved.

Good Answer:

Net Profit % increased from 8% to 12%, indicating improved profitability.

COMMON EXAM MISTAKES

❌ Sales = Profit

✓ Sales – Expenses = Profit

❌ Forgetting adjustments

✓ Process adjustments first

❌ Ignoring tax

✓ Deduct tax before NPAT

❌ No figures in interpretation

✓ Always quote figures

DISTINCTION TIPS

When preparing the Statement:

1. Start at Sales.
2. Calculate Gross Profit.
3. Add Operating Income.
4. Deduct Operating Expenses.
5. Calculate Operating Profit.

6. Process financing items.

7. Deduct tax.

8. Calculate Net Profit After Tax.

PRACTICE QUESTIONS

QUESTION 1

Define Gross Profit.

(2)

QUESTION 2

Sales = R1 800 000

Cost of Sales = R1 080 000

Calculate Gross Profit.

(2)

QUESTION 3

Calculate Gross Profit %.

(3)

QUESTION 4

Explain the difference between Operating Income and Non-Operating Income.

(4)

QUESTION 5

Why is Net Profit After Tax important to shareholders?

(4)

QUESTION 6

Commission income of R5 000 is still outstanding at year-end.

Explain the adjustment.

(3)

MEMORANDUM

QUESTION 1

Gross Profit is the profit earned after deducting Cost of Sales from Sales.

(2)

QUESTION 2

Gross Profit

=

R1 800 000

-

R1 080 000

=

R720 000

(2)

QUESTION 3

R720 000

÷

R1 800 000

×

100

=

40%

(3)

QUESTION 4

Operating Income is earned from normal operations.

Non-Operating Income is earned from activities outside normal operations.

(4)

QUESTION 5

It determines dividends, retained income and shareholder returns.

(4)

QUESTION 6

Add R5 000 to Commission Income and record it as an outstanding amount receivable.

(3)

CHAPTER SUMMARY

You should now understand:

✓ Sales

✓ Cost of Sales

✓ Gross Profit

✓ Operating Income

✓ Operating Expenses

✓ Operating Profit

✓ Non-Operating Income

✓ Non-Operating Expenses

✓ Profit Before Tax

✓ Income Tax

✓ Net Profit After Tax

✓ Year-End Adjustments

✓ Profitability Interpretation

These concepts form the foundation for preparing and analysing company financial statements and are heavily tested in Grade 12 NSC Accounting examinations.