STUDY PACK

Study Smarter, Not Harder.

STATEMENT OF FINANCIAL POSITION

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 Financial Position

✓ Distinguish between Assets, Equity and Liabilities

✓ Classify Current and Non-Current items correctly

✓ Prepare a Statement of Financial Position

✓ Process year-end adjustments

✓ Calculate missing figures

✓ Analyse the financial position of a company

✓ Avoid common examination mistakes

1. INTRODUCTION

Imagine you walk into a business and ask:

- What does the company own?
- How much money does the company owe?
- How much belongs to shareholders?

The Statement of Financial Position answers these questions.

Unlike the Statement of Comprehensive Income, which measures performance over a period, the Statement of Financial Position provides a snapshot of the company on a specific date.

WHAT IS A STATEMENT OF FINANCIAL POSITION?

Definition

The Statement of Financial Position shows the assets, equity and liabilities of a business on a specific date.

It is sometimes called:

Balance Sheet

EXAM TIP

The Statement of Comprehensive Income answers:

"How did the company perform?"

The Statement of Financial Position answers:

"What is the company's financial position?"

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2. THE ACCOUNTING EQUATION

Everything in the Statement of Financial Position is based on one important equation:

Assets = Equity + Liabilities

WHAT DOES THIS MEAN?

Everything the company owns must be financed by:

- Owners (Equity) OR
- Outsiders (Liabilities)

EXAMPLE

Assets

R5 000 000

Equity

R3 000 000

Liabilities

R2 000 000

Check:

R5 000 000

=

R3 000 000 + R2 000 000

✓ Correct

STUDYPACK MEMORY TIP

Think of buying a house.

House value:

R1 000 000

Deposit:

R200 000

Bond:

R800 000

Accounting equation:

Assets

=

Equity + Liabilities

R1 000 000

=

R200 000 + R800 000

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3. STRUCTURE OF THE STATEMENT

STATEMENT OF FINANCIAL POSITION

ASSETS

Non-Current Assets

Current Assets

TOTAL ASSETS

=

EQUITY AND LIABILITIES

Shareholders' Equity

Non-Current Liabilities

Current Liabilities

TOTAL EQUITY AND LIABILITIES

IMPORTANT RULE

Total Assets

MUST equal

Total Equity and Liabilities

EXAM TRAP

If totals do not balance:

There is an error somewhere.

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4. ASSETS

Definition

Assets are resources owned or controlled by the company that are expected to provide future economic benefits.

Simply put:

Assets help the company generate income.

EXAMPLES OF ASSETS

Buildings

Vehicles

Equipment

Inventory

Debtors

Bank

Fixed Deposits

Investments

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5. NON-CURRENT ASSETS

Definition

Assets expected to be used by the company for longer than one year.

EXAMPLES

Property

Buildings

Equipment

Vehicles

Land

Long-term investments

Fixed deposits maturing after one year

EXAM CONNECTION

In NSC examinations, learners frequently need to classify:

Fixed deposits

as either:

Current

or

Non-current

depending on the maturity date.

EXAMPLE

Fixed Deposit

Matures in:

3 years

Classification:

Non-Current Asset

EXAMPLE

Fixed Deposit

Matures in:

6 months

Classification:

Current Asset

COMMON EXAM MISTAKE

Learners classify all fixed deposits as Non-Current Assets.

WRONG.

Always check:

When does it mature?

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6. CURRENT ASSETS

Definition

Assets expected to be converted into cash within one year.

EXAMPLES

Inventory

Debtors

Bank

Cash

Short-term investments

Accrued income

MEMORY TRICK

Current Assets

=

Cash soon

7. INVENTORY

Inventory represents goods available for sale.

EXAMPLE

A clothing company has:

Women's clothing

R2 000 000

Men's clothing

R1 500 000

Inventory

=

R3 500 000

EXAM TIP

Inventory adjustments are frequently tested.

Always check:

- Valuation methods
- Stock shortages
- Stock surpluses
- FIFO
- Weighted Average

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8. TRADE AND OTHER RECEIVABLES

Amounts owed to the company.

EXAMPLES

Debtors

Accrued Income

Tax Refund Receivable

BAD DEBT PROVISION

Companies know some debtors may never pay.

Therefore:

Provision for Bad Debts is created.

EXAMPLE

Debtors

R500 000

Provision

5%

Provision

=

R25 000

Net Receivables

=

R475 000

EXAM TRAP

Provision for Bad Debts is deducted from Debtors.

It is not shown separately under liabilities.

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9. CASH AND CASH EQUIVALENTS

Includes:

Bank

Cash

Petty Cash

Short-term highly liquid investments

IMPORTANT

Positive Bank Balance

Current Asset

Negative Bank Balance (Overdraft)

Current Liability

EXAM TIP

Many learners place overdrafts under assets.

WRONG.

Bank Overdraft = Liability

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10. SHAREHOLDERS' EQUITY

Definition

The residual interest in the assets after deducting liabilities.

FORMULA

Shareholders' Equity

=

Assets - Liabilities

COMPONENTS OF EQUITY

Ordinary Share Capital

+

Retained Income

=

Shareholders' Equity

EXAMPLE

Share Capital

R15 000 000

Retained Income

R5 000 000

Shareholders' Equity

R20 000 000

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11. NON-CURRENT LIABILITIES

Definition

Debts payable after more than one year.

EXAMPLES

Mortgage Loan

Long-Term Loan

Debentures

Finance Lease Obligations

EXAM TIP

When loans appear in examinations:

Part of the loan often becomes:

Current Portion of Loan

EXAMPLE

Mortgage Loan

R2 000 000

Amount payable next year

R300 000

Statement Presentation:

Non-Current Liability

R1 700 000

Current Liability

R300 000

COMMON MISTAKE

Showing entire loan under Non-Current Liabilities.

Always separate the current portion.

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12. CURRENT LIABILITIES

Definition

Debts payable within one year.

EXAMPLES

Creditors

Accrued Expenses

Bank Overdraft

Current Portion of Loan

SARS (Tax Payable)

Shareholders for Dividends

MEMORY TIP

Current Liabilities

=

Pay Soon

13. SHAREHOLDERS FOR DIVIDENDS

One of the most tested company adjustments.

WHAT IS IT?

Final dividends declared but not yet paid.

EXAMPLE

Final Dividend

R2 000 000

Declared

Not paid

Statement Position:

Current Liability

Shareholders for Dividends

R2 000 000

EXAM TRAP

Declared

–

Paid

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14. ACCRUED EXPENSES

Expenses incurred but not yet paid.

EXAMPLES

Audit Fees

Electricity

Telephone

Interest

RULE

Outstanding expense

=

Current Liability

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15. TAXATION

There are two possibilities.

TAX REFUND

SARS owes the company.

Current Asset

TAX PAYABLE

Company owes SARS.

Current Liability

EXAM TIP

Read the question carefully.

Who owes whom?

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16. PREPARING THE STATEMENT

Always follow this order:

STEP 1

Calculate adjustments.

STEP 2

Calculate notes.

STEP 3

Prepare Assets section.

STEP 4

Prepare Equity section.

STEP 5

Prepare Liabilities section.

STEP 6

Balance totals.

NSC EXAM STRATEGY

Question 1 usually contains:

Inventory adjustment

Debtors adjustment

Provision for bad debts

Loan adjustment

Dividends

Share capital

Retained income

Work through adjustments first.

Never start preparing the statement immediately.

DISTINCTION TECHNIQUE

Create a working column.

Calculate:

✓ Debtors

✓ Creditors

✓ Loan

✓ Dividends

✓ Tax

before writing the statement.

This prevents most errors.

COMMON EXAM MISTAKES

❌ Inventory under Non-Current Assets

✓ Inventory is Current Asset

❌ Overdraft under Assets

✓ Overdraft is Current Liability

❌ Entire loan under Non-Current Liabilities

✓ Separate Current Portion

❌ Forgetting Provision for Bad Debts

✓ Deduct from Debtors

❌ Ignoring tax adjustments

✓ Check whether SARS owes company or company owes SARS

WORKED EXAMPLE

Assets

Non-Current Assets

R4 000 000

Current Assets

Inventory

R800 000

Debtors

R600 000

Bank

R300 000

Total Current Assets

R1 700 000

Total Assets

R5 700 000

Shareholders' Equity

Share Capital

R3 000 000

Retained Income

R1 200 000

Total Equity

R4 200 000

Non-Current Liabilities

Mortgage Loan

R1 000 000

Current Liabilities

Creditors

R300 000

Current Portion Loan

R100 000

SARS

R100 000

Total Current Liabilities

R500 000

Total Equity and Liabilities

R5 700 000

√ Balanced

PRACTICE QUESTIONS

QUESTION 1

Define an asset.

(2)

QUESTION 2

Differentiate between Current Assets and Non-Current Assets.

(4)

QUESTION 3

Classify the following:

3.1 Inventory

3.2 Mortgage Loan

3.3 Bank Overdraft

3.4 Debtors

(4)

QUESTION 4

A company has:

Assets = R8 000 000

Liabilities = R3 000 000

Calculate Shareholders' Equity.

(2)

QUESTION 5

Explain why Shareholders for Dividends is classified as a Current Liability.

(3)

QUESTION 6

A mortgage loan of R2 500 000 includes a current portion of R300 000.

Show how it would be presented.

(4)

MEMORANDUM

QUESTION 1

An asset is a resource controlled by the company that is expected to provide future economic benefits.

(2)

QUESTION 2

Current Assets convert to cash within one year.

Non-Current Assets are used for longer than one year.

(4)

QUESTION 3

Inventory – Current Asset

Mortgage Loan – Non-Current Liability

Bank Overdraft – Current Liability

Debtors – Current Asset

(4)

QUESTION 4

Shareholders' Equity

=

Assets – Liabilities

=

R8 000 000 – R3 000 000

=

R5 000 000

(2)

QUESTION 5

The dividend has been declared and must be paid within the next financial year.

(3)

QUESTION 6

Non-Current Liability

Mortgage Loan

R2 200 000

Current Liability

Current Portion Loan

R300 000

(4)

CHAPTER SUMMARY

You should now understand:

✓ Accounting Equation

✓ Assets

✓ Current Assets

✓ Non-Current Assets

✓ Equity

✓ Shareholders' Equity

✓ Current Liabilities

✓ Non-Current Liabilities

✓ Dividends Payable

✓ Loan Adjustments

✓ Tax Adjustments

✓ Statement of Financial Position Preparation

This chapter forms the backbone of Question 1 in the Grade 12 NSC Accounting examination and is one of the highest-mark sections in Accounting Paper 1.