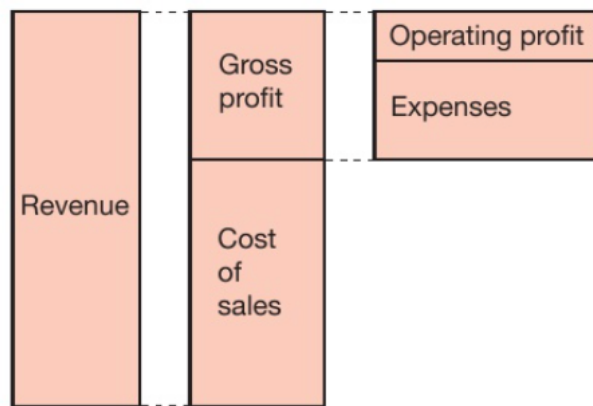


Unit 29

Statement of comprehensive income

1. The purpose of a statement of comprehensive income

- Statement of comprehensive income : Financial document showing a firm's income and expenditure in a particular time period.
- Profit : money left over after all costs have been subtracted from revenue
- Gross profit : Sales revenue less cost of sales
- Operating profit : gross profit less expenses



2. Retained and distributed profit

- Distributed profit : profit that is returned to the owners of a business
- Retained profit : Profit held by a business rather than returning it to the owners and which may be used in the future
- Dividend : share of the profit paid to shareholders in a company

3. The statement of comprehensive income

: The statement of comprehensive income shows the income and expenses of a business during the financial year.

	2016 US\$000	2015 US\$000
Revenue	5400	4900
Cost of sales	3500	3100
Gross profit	1900	1800
Administration expenses	750	700
Other operating expenses	160	150
Operating profit	990	950
Finance costs	100	100
Profit for the year	890	850
Taxation	160	150
Profit for the year after taxation	730	700

- Revenue : is the money the business receives from selling goods and services.
- Cost of sales
 - : For a manufacturer, cost of sales would include costs such as raw materials and the wages of factory workers.
 - : For retailer, cost of sales would be the cost of buying inventory
- Gross profit : is calculated when the cost of sales is subtracted from the revenue
- Administrative expenses : general overheads or expenses of the business. Eg. Office salary, stationary supplies.
- Other operating expense : Any expenses not included in administrative expenses above may be called other operating expenses. Eg. Office supplies, postage etc.
- Selling expense : A business may incur a range of expenses that are directly related to the selling of its products. Eg. Sales commissions, advertising.
- Operating profit : $\text{Gross profit} - \text{operating expense} - \text{administrative expense}$
- Finance cost : If a business borrows money it will have to pay interest to the lender.
- Profit for the year : If the cost of finance is subtracted from the operating profit, the profit for the year is determined. This is the profit before taxation.
- Profit for the year after tax : $\text{Profit for the year} - \text{tax}$

4. How might the statement of comprehensive income be used in decision making

4.1 Investment decision

: A business might use the statement of comprehensive income to decide how much money to invest to the business.

4.2 Cost analysis

: The statement of comprehensive income will show what has happened to costs during the year.

4.3 Basis for future forecasts

: Businesses can therefore use the statement of comprehensive income as a basis on which to make forecasts,,

4.4 Making comparison

: Investors may use the statement of comprehensive income when deciding where to invest their funds.

5. The nature and importance of profit

: Normal profit - minimum profit a business to make to retain the interest of the owners

: Profit is also important as measure of business performance.