

Financial Statements of a sole proprietorship

Study Unit 15

Study Unit 15: Financial Statements of a sole proprietorship

Introduction

What do we need to know about Sole Proprietorships?

- What is a sole proprietorship?
- Capital / Ownership
- Financial Statements

What is a sole proprietor?

- It is NOT a separate legal entity. It's a simple format for a business, owner-managed, with no legislation
- The owners share in the business (equity) will be the capital contributions (money or assets)
 - Plus: Profits (or Less Losses)
 - Less: Withdrawals from the business by the owner (Drawings)

What about financial information?

- Although the structure and form of the sole trader is not legislated, the financial statements are still needed due to the need for accurate, useful financial information

Considerations for Financial Statements

- Revise chp 1 & 2 & 3 for the following concepts:
 - Going Concern
 - Relevance
 - Faithful representation
 - Comparability
 - Verifiability
 - Timeliness
 - Understandability

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Statement of Financial Position

Example

- Note the format and structure of the Statement of Financial Position
- There is no difference between the way that we've presented the AFS for the rest of the chapters, and this one.
- Make sure you are comfortable with the format, wording and totals

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Statement of Profit or Loss

Example

- Note the format and structure of the Statement of Profit or Loss and other Comprehensive Income
- There is no difference between the way that we've presented the AFS for the rest of the chapters, and this one.
- Make sure you are comfortable with the format, wording and totals

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Statement of Changes in Equity

Example

- Note the format and structure of the Statement of Changes in Equity
- Note the Drawings Account in the Statement of Changes in Equity. Make sure you understand where this comes from

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Notes to the Financial Statements

Notes

- The Notes to the Financial Statements give the 'user' the background to the Accounting Policies and calculations that they will need in order to make sense of the information
- Make sure you know what these Notes look like for each of the components.