


Slide 1

2.1 Income Statement

- Objectives
 - Definition
 - Correct Formats
 - Types of Revenue
 - Types of Expenses




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Slide 2

Income Statement

- The income statement is an important part of the annual report. The announcement of earnings often drive stock prices either up or down.
- The income statement comes in two main formats
 - Single step
 - Multi-step




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Slide 3

Format

- Single Step
 - Revenues are grouped together
 - Expenses are grouped together
 - Total Expenses are subtracted from Total Revenues

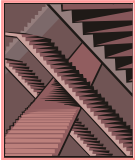


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Format

- Multi-step
 - Provides more performance information than the single step format
 - Gross profit
 - Net Income from Operations
 - Net Income before Income Taxes
 - See Multi-step Income Statement Handout

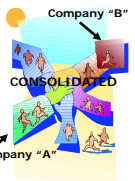


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Format

- Comparative
 - Financial information is provided for more than one year so that users can identify significant changes from one year to the next
- Consolidated
 - Often a company purchases several smaller companies and the resulting financial statements is a "consolidation" of all the financial statements of all the entities




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Slide 6

Revenues

- Types of Revenues
 - Sales
 - Service Revenue
 - Interest Revenue
 - Gains




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Expenses

- Types of Expenses
 - Cost of Goods Sold
 - Operating Expenses
 - Broad Expense Accounts
 - Administrative Expenses
 - Selling Expenses
 - General Expenses
 - Other **Operating** Expenses or Misc. **Operating** Expenses
 - Specific Expense Accounts
 - Rent Expense
 - Automobile Expense
 - Insurance Expense




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Expenses

- Types of Expenses Cont.
 - Other Expenses
 - Interest Expense
 - Losses
 - Income Tax Expense




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Purpose of the Income Statement

- Purpose
 - Performance measurement for the period
 - Show revenue and expense information




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Slide 10

Prepare a Multi-step Income Statement for Rulon Candies' operation in good form

□ Sales	\$300,000
□ Utilities Expenses	\$ 15,000
□ Employee Salaries	\$115,000
□ Advertising Expenses	\$ 10,000
□ Income Tax Expense	\$ 9,000
□ Interest Expense	\$ 25,000
□ Cost of Goods Sold	\$115,000
□ Interest Revenue	\$ 10,000
□ All transactions occurred in 2002	



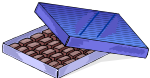
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Solution to Problem

Rulon Candies'
Income Statement
For the year ended December 31, 2002

Sales		\$300,000
Less Cost of Goods Sold		<u>\$115,000</u>
Gross Profit		\$185,000
Less Employee Salaries		\$115,000
Less Advertising Expenses		\$ 10,000
Less Utilities Expenses		<u>\$ 15,000</u>
Operating Income		\$ 45,000
Interest Revenue	\$ 10,000	
Less Interest Expense	<u>\$ 25,000</u>	
Income Before Taxes	\$ 30,000	
Less Income Tax Expense	<u>\$ 9,000</u>	
Net Income		<u>\$ 21,000</u>



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