

MULTI-STEP INCOME STATEMENT

Key Topics to Know

Single-Step Income Statement

- Total revenue – total expenses = Net Income

Multiple-Step Income Statement

- Total revenues, total expenses and net income are the same, regardless of the format of the income statement
- The multi-step income statement adds intermediate subtotals to increase the usefulness of the statement to its readers
- Total expenses are divided into two broad categories: cost of goods sold and operation expenses
- Operating expenses are further subdivided into selling expenses (the costs incurred to market and sell the products) and administrative expenses (the costs incurred to manage the business)
- Sales - Sales Returns and Allowances - Sales Discounts = Net Sales
- Net Sales - Cost of Merchandise Sold = Gross Profit
- Gross Profit - Operating Expenses = Net Income

Comprehensive Income Statement

- Includes certain other gains or losses, such as gains or losses from adjustments such as marking certain assets to their fair values, in the more inclusive income measure, Comprehensive Income

Problems

Problem #1

U Company provided the following information for the year:

Sales	\$800,000
Sales discounts	12,000
Sales returns and allowances	18,000
Cost of goods sold	380,000
Operating expenses	275,000
Gain from sale of equipment	3,000
Loss from sale of building	5,000

- Required:
- a) Prepare a single-step income statement
 - b) Prepare a multiple-step income statement

Problem #2

M Company provided income statements for the least three years.

M Company Income Statements For the years ended December 31

	Year 1	Year 2	Year 3
Sales	\$7,500	\$10,000	(f)
Cost of goods sold			
Merchandise inventory Jan. 1	(a)	375	750
Total merchandise purchases	2,400	3,625	4,875
Merchandise inventory Dec. 31	(b)	750	625
Cost of goods sold	<u>2,770</u>	<u>(d)</u>	<u>5,000</u>
Gross profit	(c)	6,750	5,200
Operating expenses	3,750	<u>3,750</u>	(g)
Net income	\$980	(e)	\$2,500

- Required:
- a) Fill in the blanks to complete the income statements

Problem #3

The following is a list of selected events for O Company for the year. O Company uses a perpetual inventory system and had a zero inventory balance prior to these transactions.

- Purchased merchandise on account for \$170,000
- Sold inventory costing \$124,000 for \$208,000 on account
- Paid transportation-out cost of \$7,000 on goods sold
- Paid operating expense of \$55,200.
- Sold land for \$45,400 that had cost \$50,000.
- A count of the inventory revealed that there was \$45,800 of inventory on hand at the end of the year.

Required: Prepare a multi-step income statement for the year.

Multiple Choice Questions

1. Net sales includes sales and
 - a) Sales returns
 - b) Sales discounts
 - c) Sales allowances
 - d) All of the above

2. Gross profit is a subtotal on the
 - a) Balance sheet
 - b) Single step income statement
 - c) Multi-step income statement
 - d) Balances income statement

3. Non-operating activities include all of the following except:
 - a) Interest revenue
 - b) Dividends
 - c) Dividend revenue
 - d) Interest expense

4. Which of the following gains or losses are included in comprehensive income?
 - a) Losses from the sale of inventory
 - b) Losses from the sales of assets
 - c) Gains from the sale of assets
 - d) Gains and losses on foreign currency translation

5. The difference between income from operations and net income includes
 - a) Other revenues and expenses
 - b) Cost of goods sold
 - c) Operating expenses
 - d) Other comprehensive income

6. Gross profit is calculated as
 - a) Sales – cost of goods sold
 - b) Net sales –cost of goods sold
 - c) Net sales – operating expenses
 - d) Operating income – operating expenses

7. All of the following are included in operating expenses except
 - a) Selling expenses
 - b) Administrative expenses
 - c) Cost of goods sold
 - d) Losses from the sales of assets

8. A single-step income statement
 - a) Excludes non-operating revenues and expenses
 - b) Includes other comprehensive income
 - c) Includes Gross Margin
 - d) Includes gains as revenue and losses as expenses

9. Which of the following is true about gross profit (gross margin)?
 - a) It is net sales minus operating expenses.
 - b) It is net sales minus cost of goods sold and operating expenses.
 - c) It is the same as income from continuing operations.
 - d) It is net sales minus cost of goods sold.

10. Which of the following best describes income from operations?
 - a) It includes the effect of income taxes.
 - b) It is net sales minus cost of goods sold and operating expenses.
 - c) It excludes the expenses related to the accounting department.
 - d) It includes the income from renting warehouse space to another company

Solutions to Problems

Problem #1

a)

**U Company
Income Statement
For the year ended December 31**

Revenues:		
Net sales	770,000	
Gain from sale of equipment	<u>3,000</u>	
		773,000
Expenses:		
Cost of goods sold	380,000	
Operating expenses	275,000	
Loss from sale of building	<u>5,000</u>	
Total expenses		<u>660,000</u>
Net income		\$113,000

b)

**U Company
Income Statement
For the year ended December 31**

Sales		\$800,000
Less: Sales discounts	\$12,000	
Sales returns and allowances	<u>18,000</u>	<u>30,000</u>
Net sales		770,000
Cost of goods sold		<u>380,000</u>
Gross profit		390,000
Operating expenses		<u>275,000</u>
Income from operations		115,000
Other income		
Gain from sale of equipment		3,000
Other expenses		
Loss from sale of building		<u>(5,000)</u>
Net income		\$113,000

Problem #2

M Company
Income Statements
For the years ended December 31

	Year 1	Year 2	Year 3
Sales	\$7,500	\$10,000	10,200
Cost of goods sold			
Merchandise inventory Jan. 1	745	375	750
Total merchandise purchases	2,400	3,625	4,875
Merchandise inventory Dec. 31	375	750	625
Cost of goods sold	<u>2,770</u>	<u>3,250</u>	<u>5,000</u>
Gross profit	4,730	6,750	5,200
Operating expenses	<u>3,750</u>	<u>3,750</u>	<u>2,700</u>
Net income	\$980	3,000	\$2,500

Problem #2

O Company		
Income Statement		
For the World Ended December 31		
Sales revenue		\$ 208,000
Cost of goods sold		<u>124,200</u>
Gross margin		83,800
Operating expenses:		
Operating expense	\$ 55,200	
Transportation-out	<u>7,000</u>	<u>62,200</u>
Operating income		21,600
Loss on sale of land		<u>(4,600)</u>
Net Income		<u>\$ 17,000</u>

Solutions to Multiple Choice Questions

- | | |
|-----|---|
| 1. | D |
| 2. | C |
| 3. | B |
| 4. | D |
| 5. | A |
| 6. | B |
| 7. | C |
| 8. | D |
| 9. | D |
| 10. | B |