

Income Statement Problems

1. Denali Limited, a manufacturing company, had the following income statement

Revenue	\$4,000,000
Cost of goods sold	\$3,000,000
Other operating expenses	\$ 500,000
Interest expense	\$ 100,000
Tax expense	\$ 120,000

What is Denali's gross profit? Denali's GP is $\$1,000,000 = \$4,000,000 - \$3,000,000$

2. Fairplay had the following information related to the sale of its products during 2009, which was its first year of business:

Revenue	\$1,000,000
Returns of goods sold	\$ 100,000
Cash collected	\$ 800,000
Cost of goods sold	\$ 700,000

Under the accrual basis of accounting, how much net revenue would be reported on Fairplay's 2009 income statement? Hint: Net revenue is revenue for goods sold during the period less any returns and allowances.

Net Revenue for the period was $\$900,000 = \$1,000,000 - \$100,000$

3. At the beginning of 2009, Florida Road Construction entered into a contract to build a road for the government. Construction will take four years. The following information as of 31 December 2009 is available for the contract:

Total revenue according to contract	\$10,000,000
Total expected cost	\$ 8,000,000
Cost incurred during 2009	\$ 1,200,000

Assume that the company estimates percentage complete based on costs incurred as a percentage of total estimated costs. Under the percentage of completion method, how much revenue will be reported in 2009?

Revenue reported as of 2009 is $\$1,500,000 = 0.15 * \$10,000,000$

4. During 2009, Accent Toys Plc., which began business in October of that year, purchased 10,000 units of a toy at a cost of £10 per unit in October. The toy sold well in October. In anticipation of heavy December sales, Accent purchased 5,000

additional units in November at a cost of £11 per unit. During 2009, Accent sold 12,000 units at a price of £15 per unit. Under the first in, first out (FIFO) method, what is Accent's cost of goods sold for 2009?

Accent's COGS under FIFO accounting is $\text{€}122,000 = (10,000 \text{ Units} * \text{€}10 \text{ per unit}) + (2,000 \text{ Units} * \text{€}11 \text{ per unit})$

5. Using the same information as the previous question, what would Accent's cost of goods sold be under the weighted average cost method?

Accent's COGS under Weighted Average Accounting is $\text{€}124,000 = (10,000 \text{ Units} * \text{€}10.33) + (2,000 \text{ Units} * \text{€}10.33)$

6. At the beginning of 2009, Glass Manufacturing purchased a new machine for its assembly line at a cost of \$600,000. The machine has an estimated useful life of 10 years and estimated residual value of \$50,000. Under the straight-line method, how much depreciation would Glass take in 2009 (year 1) for financial reporting purposes?

The amount of depreciation accounted for in year 1 would be $\text{\$}55,000 = (\$600,000 - \$50,000) / 10$

7. Using the same information as in the previous question, how much depreciation would Glass take in 2010 (year 2) for financial reporting purposes under the diminishing balance method with 2x acceleration factor?

The amount of depreciation incurred in year 2 would be $\text{\$}96,000 = (\$600,000 - \$120,000) * 10\% * 2$

8. Apex Consignment sells items over the internet for individuals on a consignment basis. Apex receives the items from the owner, lists them for sale on the internet, and receives a 25 percent commission for any items sold. Apex collects the full amount from the buyer and pays the net amount after commission to the owner. Unsold items are returned to the owner after 90 days. During 2009, Apex had the following information:

- Total sales price of items sold during 2009 on consignment was €2,000,000.
- Total commissions retained by Apex during 2009 for these items was €500,000.

How much revenue should Apex report on its 2009 income statement?

Since Apex acts as an agent and does not bear the inventory, **Net** Revenue should be reported which is €500,000

9. For 2009, Flamingo Products had net income of \$1,000,000. At 1 January 2009, there were 1,000,000 shares outstanding. On 1 July 2009, the company issued 100,000 new shares for \$20 per share. The company paid \$200,000 in dividends to common shareholders. What is Flamingo's basic earnings per share for 2009?

Flamingo's Basic EPS is \$0.76