Chapter 3

UNDERSTANDING INCOME STATEMENTS

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LEARNING OBJECTIVES

- describe the components of the income statement and alternative presentation formats of that statement;
- describe general principles of revenue recognition and accounting standards for revenue recognition;
- describe general principles of expense recognition,
- describe the financial reporting treatment and analysis of non-recurring items (including discontinued operations, unusual or infrequent items) and changes in accounting policies;
- distinguish between the operating and non-operating components of the income statement;
- convert income statements to common-size income statements;
- evaluate a company's financial performance using common-size income statements and financial ratios based on the income statement;
- describe other comprehensive income and identify major types of items included in it.

CONTENTS

INCOME STATEMENT COMPONENTS

Also called the “statement of earnings,” “statement of operations,” and “profit and loss statement (P&L)” (see Exhibits 1, 2 and 3 in the text).

Presents results of operations for the accounting period.

general format: Revenues – Expenses = Net income

e.g. company sells PPE with higher price than cost

main business operation

other activities

Revenue + Other Income + Gains – Expenses – Losses = Net income

INCOME STATEMENT FORMAT

Subtotals:

- **Gross profit** (i.e., revenue less cost of sales)
  - Multistep format: Income statement shows gross profit subtotal.
  - Single-step format: Income statement excludes gross profit subtotal.

not include interest income (for non-bank)

- **Operating profit** (i.e., revenue less all operating expenses)
  - Profits before deducting taxes and interest expense and before any other non-operating items.
  - **Operating profit and EBIT** (earnings before interest and taxes) are not necessarily the same.

Expense grouping

INCOME STATEMENT: MULTIPLE STEP

↳ US GAAP may require this
↳ In Thailand, you can choose any

Apple Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except number of shares which are reflected in thousands and per share amounts)

	Years ended		
	September 25, 2021	**September 26, 2020**	**September 28, 2019**
Net sales:			
Products	$ 297,392	$ 220,747	$ 213,883
Services	68,425	53,768	46,291
Total net sales	365,817	274,515	260,174
Cost of sales:			
Products	192,266	151,286	144,996
Services	20,715	18,273	16,786
Total cost of sales	212,981	169,559	161,782
Gross margin	152,836	104,956	98,392
Operating expenses:			
Research and development	21,914	18,752	16,217
Selling, general and administrative	21,973	19,916	18,245
Total operating expenses	43,887	38,668	34,462
Operating income	108,949	66,288	63,930
Other income/(expense), net	258	803	1,807
Income before provision for income taxes	109,207	67,091	65,737
Provision for income taxes	14,527	9,680	10,481
Net income	$ 94,680	$ 57,411	$ 55,256

INCOME STATEMENT: SINGLE STEP

all revenue

all expenses

	Note	Consolidated financial statements For the year ended 31 December 2021	2020	Separate financial statements For the year ended 31 December 2021	2020
		(in Baht)			
Revenues	5				
Revenue from sale of goods and rendering of services		565,207,287,399	525,884,319,399	290,228,104,650	300,705,032,096
Interest income		128,881,597	156,535,609	266,982,122	337,590,810
Dividend income		336,633	299,638	7,064,481,560	6,768,016,930
Net foreign exchange gain		407,191,807	225,976,671	359,448,769	146,908,098
Gain from sale of investments in subsidiaries	11	1,317,482,006	-	1,710,600,000	-
Other income	27	20,535,772,455	20,322,864,346	20,805,744,385	20,572,106,313
Total revenues		**587,596,951,897**	**546,589,995,663**	**320,435,361,486**	**328,529,654,247**
Expenses	5				
Cost of sale of goods and rendering of services		444,838,444,699	410,880,026,805	210,777,774,677	216,980,999,314
Distribution costs		97,680,470,375	91,135,550,810	77,326,834,550	77,152,016,030
Administrative expenses		19,186,391,197	16,722,647,070	13,109,431,577	11,981,566,379
Impairment for loss on intangible assets other than goodwill	17	7,159,086,365	-	-	-
Total expenses		**568,864,392,636**	**518,738,224,685**	**301,214,040,804**	**306,114,581,723**
Profit from operating activities		**18,732,559,261**	**27,851,770,978**	**19,221,320,682**	**22,415,072,524**
Gain on step acquisition	4	6,714,300,702	-	-	-
Share of loss of associate and joint ventures accounted for using equity method	10	(226,474,305)	(63,415,210)	-	-
Profit before finance costs and income tax expense (income)		**25,220,385,658**	**27,788,355,768**	**19,221,320,682**	**22,415,072,524**
Finance costs	5, 30	12,643,003,583	8,525,992,023	11,008,736,186	7,822,083,157
Profit before income tax expense (income)		**12,577,382,075**	**19,262,363,745**	**8,212,584,496**	**14,592,989,367**
Income tax expense (income)	31	524,889,499	2,759,491,185	(819,095,505)	295,026,227
Profit for the year		**12,052,492,576**	**16,502,872,560**	**9,031,680,001**	**14,297,963,140**

GENERAL PRINCIPLES OF REVENUE RECOGNITION AND ACCRUAL ACCOUNTING

- New standards for revenue recognition became effective at the start of 2018.
- Profit is frequently used as a measure of performance and composed of income and expenses.
- Income includes revenue and gains.
- *What is the difference between revenue and gains?*

GENERAL PRINCIPLES OF REVENUE RECOGNITION AND ACCRUAL ACCOUNTING

- Revenue recognition can occur independently of cash movements—for example, in the case of the
  - sale of goods and services *on credit* or
  - receipt of cash *in advance* of providing goods and services

    ↳ cannot recognize revenue because company haven't provide goods or services

A = L + E

+ A/R + sales

+ cash + unearned revenue

- A fundamental principle of accrual accounting is that revenue is recognized (reported on the income statement) in the period in which *it is earned*.
  - When the risk and reward of ownership is transferred.
  - When the company delivers the goods or services.

WHEN TO RECOGNIZE REVENUE

- IFRS and US GAAP were converged so revenue recognition principles are identical using **a five-step model**:

1. Identify the contract(s) with a customer;
2. Identify the separate or distinct performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations within the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

HANDSET

Samsung Galaxy Z Fold5

Starting from

฿47,800

~~Get free Samsung Care+ for 1 Year value 11,990 baht. for more details. Click~~

~~Period: 11 Aug 23 – 11 Sep 23~~

Select Storage Capacity

256GB | 512GB

Select colour – PHANTOM BLACK

Regular price

Device only

- ฿59,900
- 0% installment (purchase ฿5,000 or more)

Available Promotions

Select a bundle package

Contract duration

Select contract duration as you like

12 **Months**

~~฿59,900~~ 47,800 baht	~~฿59,900~~ 48,500 baht	~~฿59,900~~ 49,600 baht
• Discounts: ฿12,100	• Discounts: ฿11,400	• Discounts: ฿10,300
Package **1,699 baht** Per month	Package **1,499 baht** Per month	Package **1,199 baht** Per month
Select	Select	Select

Assume the same package without the bundles is THB699 per month

you will have to pay for internet bundle higher if you buy it with mobile phone

- Step1: Identify the contract(s) with a customer
  - AIS service provider enters into a contract with a customer.

e.g. drink with loyalty program → 2 obligations
1) provide drink to customer
2) give free drink to customer if he/she can collect 10 coins

- Step2: Identify the separate or distinct performance obligations in the contract
  - Give Samsung galaxy Z fold5 to customer
  - Provide a mobile and internet networks to a customer.

- Step3: Determine the transaction price
  - Total transaction price = THB49,600+THB14,388(1,199*12) = THB63,988

internet package

- Step4: Allocate the transaction price to the performance obligations

price billing to customer
~~as~~ as price of solely sell internet package
> sell with mobile phone

Fair value of each item

Performance obligations	Stand-alone selling price	Allocate the transaction price	Revenue	Billing
Mobile phone	59,900	56,128 (59,900/68,288*63,988)	56,128 When a phone is delivered	0
Phone contract	8,388 (699*12)	7,860 (8,388/68,288*63,988)	655 per month (7,860/12)	1,199
Total	68,288	63,988 total transaction price that customer will pay for 1 year		

- Step5: Recognize revenue when (or as) the entity satisfies a performance obligation
  - Phone service: recognize over time
  - Mobile phone: recognize at the point of time (when deliver a mobile phone)

	Assets =	Liabilities	+ Equity
When the contract starts and a customer gets a phone.	Cash +49,600 cash paid by customer for mobile phone Contact asset +6,528 same idea with prepaid insurance		Sales +56,128 recognize the sales of product
	Inventory -XXX customer hasn't paid for monthly internet		Cost of sales –XXX
When the services are provided and billed each month. (month1)	Receivable +1,199 Contract asset -544 decrease with amount of receivable - revenue from services		Revenues from services +655
When the services are provided and billed each month. (month2)	Receivable +1,199 Contract asset -544		Revenues from services +655

- Record the same transaction over 12 months. By the end of the contract, contract asset will be zero.

Advanced Info Service Public Company Limited and its subsidiaries as at December 31, 2022

	NOTES	CONSOLIDATED FINANCIAL STATEMENTS	
		As at December 31, 2022	As at December 31, 2021
ASSETS			
Current assets			
Cash and cash equivalents	5, 35	9,013,520,137	12,739,290,035
Specifically-designated bank deposits	6	980,247,790	1,380,727,500
Restricted deposits at a financial institution		-	11,200,000
Trade and other current receivables	7, 35	17,901,787,394	16,552,288,496
Contract assets	8	2,123,105,990	1,819,810,542
Short-term loans to related parties	35	-	-
Inventories	9	3,839,281,484	2,104,297,782
Current tax assets		26,391,418	5,302,230
Other current financial assets	36	47,797,965	213,374,674
Other current assets		405,593,740	739,789,349
Total current assets		34,337,725,918	35,566,080,608

https://investor.ais.co.th/misc/ar/2022/20230221-advanc-ar2022-en.pdf

SPECIFIC REVENUE RECOGNITION APPLICATIONS: CONSTRUCTION CONTRACT

Question: Builder's contract specifies consideration of $1 million and total costs of $700,000. Builder incurs costs of $420,000 in year 1. Assuming that costs incurred provide an appropriate measure of contract progress, how much revenue should Builder recognize in year 1?

Answer: For performance obligations satisfied over time, revenue is recognized over time by *measuring progress towards* satisfying the obligation. Builder has incurred 60% of total expected costs (420,000/700,000) and hence will recognize $600,000 revenue in year 1.

progress of construction ≈ 60%

Revenue = 60%*1,000,000 = $600,000

SPECIFIC REVENUE RECOGNITION APPLICATIONS: VARIABLE CONSIDERATION

Question: Assume that the contract price is $1 million **plus** a bonus of $200,000 if the building is complete within 2 years. Builder only has limited experience of this type of construction and external factors (e.g. the weather) could cause delays. Builder's expected total costs are $700,000. Builder incurs $420,000 costs in year 1. Assuming that costs incurred provide an appropriate measure of progress towards contract completion, how much revenue should be recognized in year 1?

company should be very confident that they can finish project within 2 years

can recognize bonus of $200,000

A company is only allowed to recognize variable consideration if it can conclude that it will not have to reverse the cumulative revenue in the future.

Answer: variable consideration can only be included in the contract price if it will not be reversed in the future. The bonus cannot be recognized in year 1 because the non-reversible conclusion cannot be reached due to Builder's limited experience and potential delays resulting from factors beyond its control.

company can only recognize $600,000 as revenue

SPECIFIC REVENUE RECOGNITION APPLICATIONS: CONTRACT MODIFICATION

cost incurred in year 2 = $50,000 | $\frac{(\overset{\text{y1 cost}}{420{,}000} + \overset{\text{y2}}{50{,}000})}{(700{,}000 + 120{,}000)}$ → progess = 57% × 1.35 million → $769,000 − $609,000 (rev y1) = $160,000 → rev of yr2

Question: Assume the facts from the previous example. At the start of year 2, Builder and Customer agree to changing the building floor plan and modify the contract. Consideration increases by $150,000 and the allowable time for achieving the bonus is extended by 6 months. Builder expects its costs to increase by $120,000. Given the extension to the deadline, Builder (certain) concludes the bonus can now be achieved. How does Builder account for this change in the contract?

Answer: This is not a new contract but a modification to the existing contract. Hence, a catch-up adjustment will be needed. Builder's total revenue is now $1.35 million (1 million (contract price) + $200,000 (bonus) + $150,000) and contract progress is now 51.2% (420,000 (yr 1) / (700,000 (total cost before adjusting) + 120,000 (increased cost))).

→ adjust in yr 2

An additional $91,200 revenue is recognized as a cumulative catch-up adjustment on the date of the contract modification. (51.2%*$1.35 million -$600,000)

SPECIFIC REVENUE RECOGNITION APPLICATIONS: EXAMPLE

Question: A company operates a website enabling customers to purchase goods from various suppliers. Customers pay the company in advance and orders are non-refundable. The **supplier** delivers the goods directly to the customer and the company receives a commission of 10%. Should the company report total revenues equal to 100% of the sales amount (gross) or total revenues equal to 10% of the sales amount (net)?

should recognize only 10%

platform doesn't take the risk

Revenues are reported gross if the company is acting as ***principal*** *or net if the company is acting as* ***agent****.*

Answer: In this example, the company is acting as agent because it is not primarily responsible for fulfilling the contract, does not take any inventory risk or credit risk, does not have discretion in setting the price and receives compensation in the form of a commission. The company therefore records the **net** amount of the revenue (i.e. its commission).

GENERAL PRINCIPLES OF EXPENSE RECOGNITION

once you utilize asset → you recognize expense

- Fundamental principle: A company recognizes expenses in the period in which it consumes (i.e., uses up) the economic benefits associated with the expenditure.
- Matching principle: Costs are matched with revenues.
- As with revenue recognition, expense recognition can occur independently of cash movements.
  - Inventory and cost of goods sold
  - Plant, property, and equipment and depreciation

(More details of expense recognition will be explored in later chapters)

NON-RECURRING ITEMS AND CHANGES IN ACCOUNTING STANDARDS

- Separating non-recurring from recurring items of income and expense can help an analyst assess a company's future earnings.
- Discontinued operations should be reported separately.
- Unusual or infrequent items may be reported separately.
- Changes in accounting policies/standards.

NON-OPERATING ITEMS AND UNUSUAL ITEMS

Examples of non-operating items (non-financial service companies):

- Interest income or interest expense
- Gains or losses on sale of investments
- Some of these items may recur (e.g., interest income or expense), while others are less likely to recur (e.g., gains or losses).

Examples of unusual items:

- Goodwill impairment, asset impairment
- Restructuring costs

NON-RECURRING ITEMS AND CHANGES IN ACCOUNTING STANDARDS: MICROSOFT CORP 30 JUNE 2018 FINANCIAL STATEMENTS

The most significant impact of the [new revenue recognition] standard relates to our accounting for software license revenue. Specifically, for Windows 10, we *recognize revenue predominantly at the time of billing and delivery rather than ratably over the life of the related device*. For certain multi-year commercial software subscriptions that include both distinct software licenses and SA, we *recognize license revenue at the time of contract execution rather than over the subscription period*. Due to the complexity of certain of our commercial license subscription contracts, the actual revenue recognition treatment required under the standard depends on contract-specific terms and in some instances may vary from recognition at the time of billing. Revenue recognition related to our hardware, cloud offerings (such as Office 365), LinkedIn, and professional services remains substantially unchanged. Refer to Impacts to Previously Reported Results below for the impact of adoption of the standard in our consolidated financial statements.

NON-RECURRING ITEMS AND CHANGES IN ACCOUNTING STANDARDS: MICROSOFT CORP 30 JUNE 2018 FINANCIAL STATEMENTS: EXAMPLE

The income statements of Microsoft Corp are as follows:

(In $ millions, except per share amounts)	As previously reported	New revenue standard adjustment	new As restated
Income statements			
Year ended June 30, 2017			
Revenue	89,950	6,621	96,571
Provision for income taxes	1,945	2,467	4,412
Net income	21,204	4,285	25,489
Diluted earnings per share	2.71	0.54	3.25
Year ended June 30, 2016			
Revenue	85,320	5,834	91,154
Provision for income taxes	2,953	2,147	5,100
Net income	16,798	3,741	20,539
Diluted earnings per share	2.1	0.46	2.56

- No wonder Microsoft chose to adopt the standard earlier than the required adoption date in 2019…Performance looks much better!

/held for sale
/ has been already sold
→ part company that is looking for potential buyes } you cannot expect to get revenue from this
& no cost associate with discontinued operation

DISCONTINUED OPERATIONS

• Discontinued operations are reported when

1. A component of an entity or a group of components has been sold or disposed of, or is considered held for sale

- Operating segment, a reporting unit, a subsidiary, or an asset group

2. If the disposal represents *a strategic shift* that has, or will have, a major effect on a company's operations and financial results.

- The disposal of operations in a major geographical area, a major line of business, a major equity investment, or other major parts of the company

Because the discontinued operation will *no longer provide earnings* (or cash flow) to the company, an analyst may eliminate discontinued operations in formulating expectations about a company's future financial performance.

NON-GAAP EARNINGS

- Companies are required to report earnings based on relevant accounting standards.

- GAAP – GENERALLY ACCAPTED ACCOUNTING PRINCIPLES
- NON-GAAP EARNINGS (sometimes called street earnings, pro forma earnings) ↳ not based on US GAAP
  - Many companies voluntarily provide pro forma earnings/non-GAAP earnings to investors. ↳ companies can choose to show non-GAAP numbers

    Higher than reported number

    NI in FS

    Some items that should be excluded to show more consistent number e.g. non-recurring expenses
  - NON-GAAP EANRINGS = GAAP EARNINGS – **EXCLUSIONS** (expenses)

    SEC may not allow this

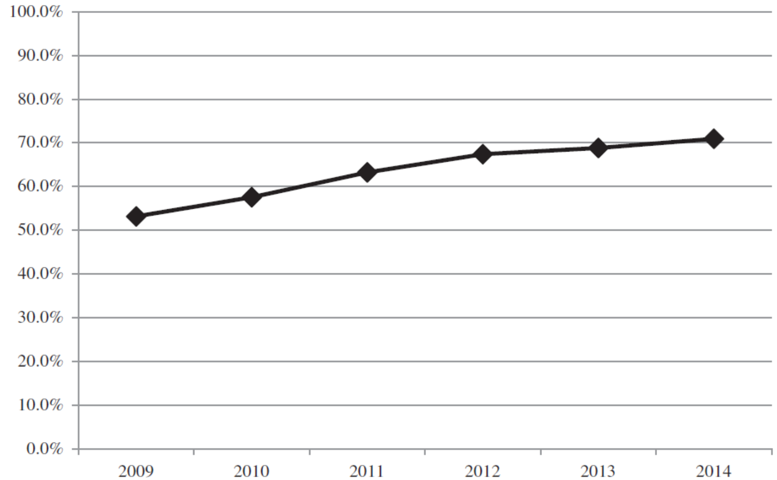
    IFRS ; non-IFRS earning

  Exclusions: exclude certain revenues and expenses. Common exclusions include restructuring costs, acquisition costs, write-downs of impaired assets, and share-based compensation.

  Non-GAAP earnings are controversial since the expenses to exclude are at the discretion of management.

Figure 1 Non-GAAP reporting frequency by year and sector

Panel A: Frequency of non-GAAP reporting by year



Panel B: Frequency of non-GAAP reporting by sector (2009–2014)

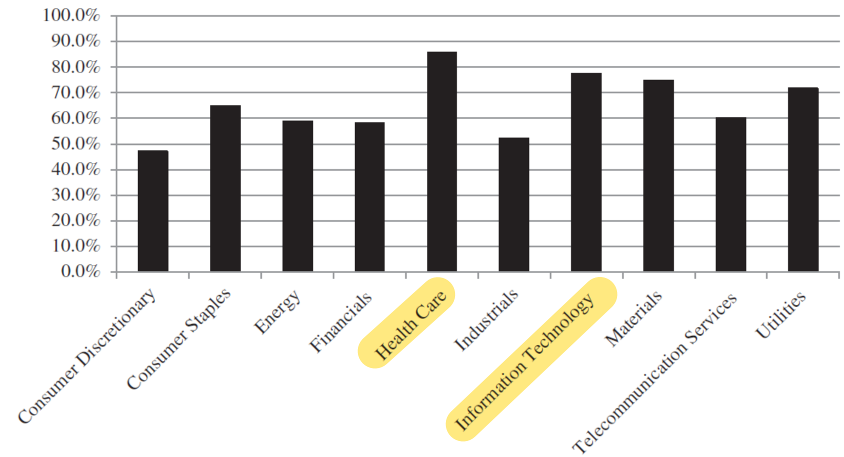
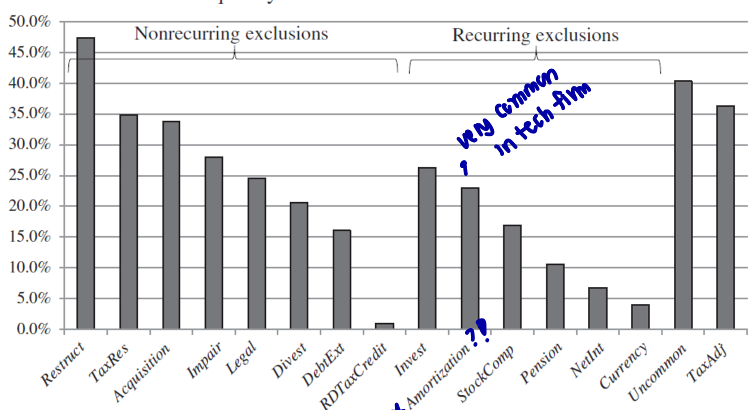


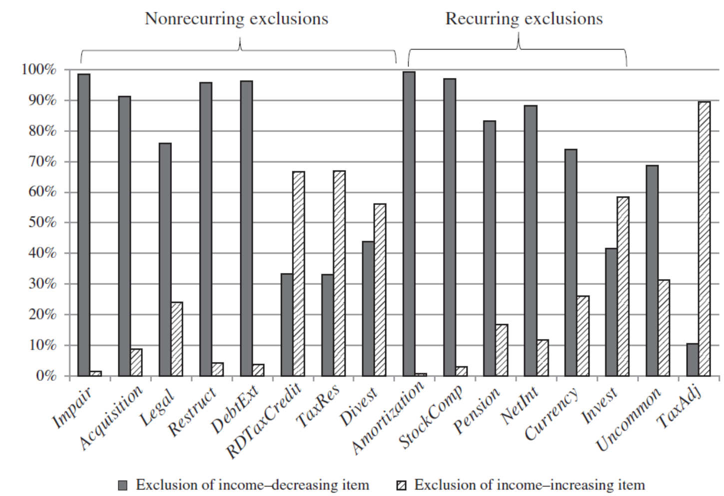
Figure 2 Non-GAAP exclusion frequency, magnitude, and sign

Panel A: Exclusion frequency



very common in tech firm
?
??
stock compensation

Panel C: Frequency of exclusions of income-decreasing (increasing) items



Black, D.E., Christensen, T.E., Ciesielski, J.T. and Whipple, B.C., 2021. Non-GAAP earnings: A consistency and comparability crisis?. *Contemporary Accounting Research*, *38*(3), pp.1712-1747.

DO MANAGERS DEFINE NON-GAAP EARNINGS TO MEET OR BEAT ANALYST FORECASTS?

want to beat analyst's forecast

from earning announcement

Partial results

Table 4
Logistic regressions of meet or beat indicator (MBE) on exclusion variables and other tools used to meet or beat analyst expectations.

Dummy variable = 1 if IBES actual EPS > GAAP EPS

service provider collects data from analyst

	[1]		[2]	
	Coeff	z-Stat	Coeff	z-Stat
Intercept	−1.471***	−11.20	−1.485***	−11.32
Pos Excl Use	**0.194*** **	**5.88**		
Pos Other Excl Use			**0.238*** **	**7.63**
Pos Special Items Use			**0.036**	**1.21**
Pos Disc Acc	0.002	0.08	−0.002	−0.07
Pos Disc CFO	0.147***	5.09	0.146***	5.03
Pos Disc Prod	−0.024	−0.97	−0.026	−1.05
Pos Disc Exp	0.120***	4.07	0.118***	4.07
Neg Abn Forecast	0.383***	15.48	0.383***	15.39
Book-to-Market	−0.268***	−5.75	−0.267***	−5.79
Sales Growth	0.731***	11.93	0.732***	11.88
Ln *Size*	0.082***	7.93	0.083***	8.24
Profitable	0.633***	14.98	0.637***	15.06
ROA	10.031***	12.05	9.978***	11.95

positive exclusion

exclude expenses

has measurement error around 30%

- Firms that use income-increasing non-GAAP earnings are more likely to meet or beat analysts forecast.

The likelihood of meet or beat analyst consensus

$$MBE_t = \gamma_0 + \gamma_1 Pos\ Excl\ Use_{i,t} + \gamma_2 Book\text{-}to\text{-}Market_{i,t} + \gamma_3 Sales\ Growth_{i,t} + \gamma_4 \mathrm{Ln}Size_{i,t} + \gamma_5 Profitable_{i,t} + \gamma_6 ROA_{i,t} + \upsilon_{i,t} \quad (1)$$

Doyle, J.T., Jennings, J.N. and Soliman, M.T., 2013. Do managers define non-GAAP earnings to meet or beat analyst forecasts?. *Journal of Accounting and Economics*, *56*(1), pp.40-56.

ANALYSIS OF THE INCOME STATEMENT

- Common-size analysis of income statement
  - Each line item on the income statement divided by revenue (a percentage of revenue).
  - Remove the size effect
- Income statement ratios
  - Gross margin
  - Operating margin
  - Net profit margin

COMMON-SIZE INCOME STATEMENTS

Panel A: Partial Income Statements for Companies A, B, and C			
($)	A	B	C
Sales	$10,000,000	$10,000,000	$2,000,000
Cost of sales	3,000,000	7,500,000	600,000
Gross profit	7,000,000	2,500,000	1,400,000
Selling, general, and administrative expenses	1,000,000	1,000,000	200,000
Research and development	2,000,000	—	400,000
Advertising	2,000,000	—	400,000
Operating profit	2,000,000	1,500,000	400,000

eliminate size problem

COMMON-SIZE INCOME STATEMENTS

Panel B: Common-Size Income Statements for Companies A, B, and C			
	A	B	C
Sales	100%	100%	100%
Cost of sales	30	75	30
Gross profit	70	25	70
Selling, general, and administrative expenses	10	10	10
Research and development	20	0	20
Advertising	20	0	20
Operating profit	20	15	20

Each line item is expressed as a percentage of the company's sales.

INCOME STATEMENT RATIOS

- **Profitability ratios found directly on the common-size income statement.**
  - Gross profit margin = Gross profit/Revenue.
    - Gross profit = Sales – Cost of goods sold
    - Measure the amount of gross profit that a company generated for each dollar of revenue
  - Operating profit margin = Operating profit/Revenue
  - Pretax profit margin = Pretax profit/Revenue

INCOME STATEMENT RATIOS

- **Net profit margin = Net income/Revenue**

  - Net profit margin measures the amount of income that a company was able to generate for each dollar of revenue.
  - Higher level of net profit margin indicates higher profitability (generally more desirable).
  - Also referred to as "*return on sales.*"

EXHIBIT 17 AB InBev's Margins: Abbreviated Common-Size Income Statement

	12 Months Ended December 31					
	2017		2016		2015	
	$	%	$	%	$	%
Revenue	56,444	100.0	45,517	100.0	43,604	100.0
Cost of sales	(21,386)	(37.9)	(17,803)	(39.1)	(17,137)	(39.3)
Gross profit	**35,058**	1st **62.1**	**27,715**	**60.9**	**26,467**	**60.7**
Distribution expenses	(5,876)	(10.4)	(4,543)	(10.0)	(4,259)	(9.8)
Sales and marketing expenses	(8,382)	(14.9)	(7,745)	(17.0)	(6,913)	(15.9)
Administrative expenses	(3,841)	(6.8)	(2,883)	(6.3)	(2,560)	(5.9)
Portions omitted						
Profit from operations	**17,152**	**30.4**	**12,882**	**28.3**	**13,904**	**31.9**
Finance cost	(6,885)	(12.2)	(9,382)	(20.6)*	(3,142)	(7.2)
Finance income	378	0.7	818	1.8	1,689	3.9
Net finance income/(cost)	(6,507)	(11.5)	(8,564)	(18.8)	(1,453)	(3.3)
Share of result of associates and joint ventures	430	0.8	16	0.0	10	0.0
Profit before tax	**11,076**	**19.6**	**4,334**	**9.5**	**12,461**	**28.6**
Income tax expense	(1,920)	(3.4)	(1,613)	(3.5)	(2,594)	(5.9)
Profit from continuing operations	**9,155**	**16.2**	**2,721**	**6.0**	**9,867**	**22.6**
Profit from discontinued operations	28	0.0	48	0.1		—
Profit of the year	**9,183**	**16.3**	**2,769**	**6.1**	**9,867**	**22.6**

Gross profit margin → not change too much

→ profit margin in 2016 is very low due to finance cost

FS → you can get from SEC or SET https://market.sec.or.th/public/idisc/en/FinancialReport/ALL

COMPREHENSIVE INCOME

Comprehensive income = Net income + Other comprehensive income

I/S from income statement — not under income statement

U.S. GAAP

Comprehensive income: the change in equity (net asset) of a business enterprise during a period from transactions and *other events and circumstances from non-owner sources*.

IFRS

Other comprehensive income includes items of income and expense that are “not recognized in profit or loss required or permitted by other IFRS”.

Total comprehensive income is “the change in equity during a period resulting from transaction and other events, *other than those changes resulting from transactions with owners in their capacity as owners*.”

COMPREHENSIVE INCOME

income statement
P/L is used to measure business performance
↳ Manager can somehow control it

Comprehensive income = Net income + Other comprehensive income

→ usually unrealized, manager/owner cannot control

Other comprehensive income (OCI) items:

IFRS

1. Foreign currency translation adjustments
   US GAAP
2. Unrealized gains or losses on derivatives contracts accounted for as hedges
3. Unrealized holding gains and losses on available-for-sale securities
4. Certain costs of a company's defined benefit post-retirement plans that are not recognized in the current period
5. Revaluation surplus (U.S. GAAP not permitted)

has multiple subsidiaries

THE WALT DISNEY COMPANY: 2021 10-K

CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)

	2021	2020	2019
Revenues:			
Services	**$ 61,768**	$ 59,265	$ 60,579
Products	**5,650**	6,123	9,028
Total revenues	**67,418**	65,388	69,607
Costs and expenses:			
Cost of services (exclusive of depreciation and amortization)	**(41,129)**	(39,406)	(36,493)
Cost of products (exclusive of depreciation and amortization)	**(4,002)**	(4,474)	(5,568)
Selling, general, administrative and other	**(13,517)**	(12,369)	(11,549)
Depreciation and amortization	**(5,111)**	(5,345)	(4,167)
Total costs and expenses	**(63,759)**	(61,594)	(57,777)
Restructuring and impairment charges	**(654)**	(5,735)	(1,183)
Other income, net	**201**	1,038	4,357
Interest expense, net	**(1,406)**	(1,491)	(978)
Equity in the income (loss) of investees	**761**	651	(103)
Income (loss) from continuing operations before income taxes	**2,561**	(1,743)	13,923
Income taxes on continuing operations	**(25)**	(699)	(3,026)
Net income (loss) from continuing operations	**2,536**	(2,442)	10,897
Income (loss) from discontinued operations, net of income tax benefit (expense) of $9, $10 and ($39), respectively	**(29)**	(32)	687
Net income (loss)	**2,507** total net income	(2,474)	11,584
Net income from continuing operations attributable to noncontrolling and redeemable noncontrolling interests minority interest → portion that is not owned by Disneys Disneys has no control	**(512)**	(390)	(472)
Net income from discontinued operations attributable to noncontrolling interests	**—** for Disneys alone	—	(58)
Net income (loss) attributable to The Walt Disney Company (Disney)	**$ 1,995**	$ (2,864)	$ 11,054

THE WALT DISNEY COMPANY: 2021 10-K

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in millions)

	2021	2020	2019
Net income (loss)	$ **2,507**	$ (2,474)	$ 11,584
Other comprehensive income (loss), net of tax:			
Market value adjustments, primarily for hedges	**41**	(251)	(37)
Pension and postretirement medical plan adjustments	**1,850**	(1,476)	(2,446)
Foreign currency translation and other	**77**	115	(396)
Other comprehensive income (loss)	**1,968**	(1,612)	(2,879)
Comprehensive income (loss)	**4,475**	(4,086)	8,705
Net income from continuing operations attributable to noncontrolling interests	**(512)**	(390)	(530)
Other comprehensive income (loss) attributable to noncontrolling interests	**(86)**	(93)	65
Comprehensive income (loss) attributable to Disney	$ **3,877**	$ (4,569)	$ 8,240

See Notes to Consolidated Financial Statements in equity section

COMPREHENSIVE INCOME

Beginning Equity	+ or – Change	= Ending Equity
Retained earnings	+ Net income – Dividends	Retained earnings
Accumulated other comprehensive income	+ Other comprehensive income – Other comprehensive loss	Accumulated other comprehensive income
Stock	+ Issuances – Repurchases	Stock

1. Foreign currency translation adjustments
2. Unrealized gains or losses on derivatives contracts accounted for as hedges
3. Unrealized holding gains and losses on available-for-sale securities
4. Certain costs of a company's defined benefit post-retirement plans that are not recognized in the current period

THE WALT DISNEY COMPANY: 2021 10-K

Partial Consolidated Statements of Shareholders' Equity

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in millions)

1,968 86
Other comprehensive income − portion of NCI = 1882
(total) OCI

must be reported using US GAAP

	Equity Attributable to Disney							
	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Disney Equity	Non-controlling Interests[1]	Total Equity
Balance at October 3, 2020 begin	1,810	$ 54,497	$ 38,315	$ (8,322)	$ (907)	$ 83,583	$ 4,680	$ 88,263
Comprehensive income (loss)	—	—	1,995	1,882	—	3,877	284	4,161
Equity compensation activity	8	904	—	—	—	904	—	904
Contributions	—	—	—	—	—	—	89	89
Cumulative effect of accounting change	—	—	109	—	—	109	—	109
Distributions and other	—	70	10	—	—	80	(595)	(515)
Balance at October 2, 2021 Ending	**1,818**	**$ 55,471**	**$ 40,429**	**$ (6,440)**	**$ (907)**	**$ 88,553**	**$ 4,458**	**$ 93,011**

COMPREHENSIVE INCOME: EXAMPLE

Assume the following about a company:

- beginning shareholders' equity is €200 million
- net income for the year is €20 million
- cash dividends for the year are €3 million
- no issuance or repurchase of common stock.
- actual ending shareholders' equity is €227 million.

RE $\uparrow$ from net income

deduct by cash dividend

begin

$200 + 20 - 3 + X = 227$

$\therefore$ OCI = € 10 million

What amount has bypassed the net income calculation by being classified as other comprehensive income?

What is the company's comprehensive income?

IFRS	US GAAP
Comprehensive income is presented either in a single, continuous statement or in two separate statements.	
Similar OCI items, but an additional item, *changes in revaluation surplus*, is possible. Not required to report *accumulated other comprehensive income (AOCI)*.	Similar OCI items, except for revaluation surplus. US GAAP prohibits the revaluation model. Required to report *AOCI* as a separate component of equity in the statement of financial position.

SUMMARY

- Income statement shows how much revenue the company generated during a period and what costs it incurred in connection with generating that revenue.
- Accounting issues relate primarily to timing (revenue recognition, expense recognition, non-recurring items).
- The income statement also presents EPS (earnings per share), an important metric.
- Tools for income statement analysis include common-size analysis and profitability ratios.
- Comprehensive income includes net income and other comprehensive income.
- As of the beginning of 2018, revenue recognition standards have converged.

1,5

22:48 อ. 22 ส.ค. 75%

Homework2 (2604647_1/2023.Group)

recurring expenses.

3. Selected year-end financial statement data for Workhard are shown below (in $million).

Beginning shareholders' equity	475
Ending shareholders' equity	493
Unrealized gain on available-for-sale securities	5
Unrealized loss on derivatives accounted for as hedges	−3
Foreign currency translation gain on consolidation	2
Dividends paid	1
Net income	15

$\to 4$

net income + OCI

Workhard's comprehensive income for the year:

net income, Div

$475 + 15 - 1 + x = 493$

$x = 4$

- includes $4 million in other comprehensive income.
- is $4 million.
- is increased by the derivatives accounted for as hedges.
- s $18 million.

4. When preparing an income statement, which of the following items would most likely be classified as other comprehensive income?

- A realized gain on a derivative contract not accounted for as a hedge.
- Impairment of goodwill.
- An unrealized gain on a security held for trading purposes.
- A foreign currency translation adjustment.

5. Shareholders' equity reported on the balance sheet is *most* likely to differ from the market value of shareholders' equity because:

2 กิจกรรม การแชท ทีม งานที่มอบหมาย ปฏิทิน การโทร เพิ่มเติม