



Department of Education
SCHOOLS DIVISION OF CITY OF MEYCAUAYAN
Pag-asa St., Malhacan, City of Meycauayan, Bulacan



Senior High School

12

Activity Sheet **in** **Fundamentals of** **Accountancy, Business** **and Management 2**

Statement of Comprehensive **Income-Multiple Step**

ABM_FABM12- Ic-d-7



GOVERNMENT PROPERTY
NOT FOR SALE

STATEMENT OF COMPREHENSIVE INCOME -MULTI- STEP



Let Us Know

On our previous activity of **Statement of Comprehensive Income**, we define it as financial statement that measures performance and reports entity's profitability. To continue our lesson, we will study another format of **Statement of Comprehensive Income** used for merchandising type of business **Statement of Comprehensive Income- multi step**. It shows the various stages such as the gross profit, the total income, the net operating income, expenses, and net income.



Let Us Review

Activity : Lesson Alphabet

Summarize our previous lesson Statement of Comprehensive Income -Single Step using the letters of the alphabet as the sentence beginning .



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Let Us Study

On our previous lesson we learned a business that generate income by rendering business to client. This includes, professional services such as accounting, law firm, tutorial services, dental and medical services, salon, and repair shop. In this module we will give an emphasis on another type of business which engaged in buying and selling of goods or merchandise, the merchandising business. It purchased merchandise and sold higher than the price of acquisition cost to generate an income. Among the examples of merchandising businesses are sari-sari store, bookstores, home appliance stores and furniture stores. Nowadays, online shop can be considered also as part of merchandising business. To illustrate the business flow of merchandise business.

Example of Merchandising business, Victor Basa is an owner of Basa Bookstore Trading Company, he purchases accounting books at ₱150.00 pesos and sell it at a price of ₱250.00 online and through his bookshop located in City of Meycauayan, Bulacan.

Merchandising Account Titles added to the Statement of Comprehensive Income – Merchandising Concern

Table 1: Merchandising Account Titles

Accounts Titles	Description
Merchandise Inventory	Product or goods purchase by business intended for sale but unsold in a period of time.
Freight out or Transportation out or delivery expense	The cost incurred by seller for delivering merchandise to customers.
Freight in or Transportation in	The cost incurred by buyer for picking up of merchandise purchased from the supplier to the place of buyer. This cost is shouldered by the buyer
Purchase Return or Allowances	A contra-expense account accumulated in the cost of product purchased return to the supplier for various reasons such as, defective products, errors in product specifications. This is only applicable with products acquired not with building, land or machineries. This was deducted to buyers total amount of purchases.
Purchase Discount	A reduction in purchase price due to on time payment of the buyer within the discount period to the seller. This is only used for merchandise only.
Sales	A revenue derived in selling product or goods either cash or on account.
Sales Return and Allowances	A contra-revenue account, an amount returned to buyer due to the returned of merchandise with defect and errors in product specifications. Deducted to the total amount of sales.
Sales Discount	A reduction in the selling price due to early payment of the buyer to the seller within the discount period.

Pro-forma of Statement of Comprehensive Income Service Entity vs. Statement of Comprehensive Income Merchandising Concern

Kutingting Repair Shop			
Income Statement			
For the Year Ending December 31,2019			
Income			
	Repair Income		₱120,000.00
Other Income			
	Rent Income	2,000.00	
	Interest Income	1,000.00	3,000.00
Total Income			₱123,000.00
Less :	Operating Expenses		
	Salaries Expense	₱25,000.00	
	Rent Expense	10,000.00	
	Office Supplies Expense	1,000.00	
	Utilities Expense	5,000.00	
	Communication Expense	2,500.00	
	Gas and oil	4,500.00	
	Interest Expense	3,000.00	
Total Operating Expenses			₱51,000.00
Net Income (Loss)			₱72,000.00

Figure 1. Statement of Comprehensive Income Service Entity

Elijah's Sweets Trading			
Statement of Comprehensive Income			
For the Year Ending December 31,2019			
Revenue			
	Sales	PHP	₱1,500,000.00
Less :	Cost of Sales		-₱200,000.00
Add:	Gross Income		1,300,000.00
	Other Income		500,000.00
	Total Revenue		₱1,800,000.00
Less :	Operating Expenses		-₱1,000,000.00
	Net Operating Income		₱800,000.00

Figure 2. Statement of Comprehensive Income Merchandising Concern

Merchandising Statement of Comprehensive Income uses a **multi-step pro-forma**, wherein various stages should be done in able to arrive at its net income. Its show the flow of how was a product acquired, sold to get the net income which is an addition on our owner's equity. Merchandising Statement of Comprehensive Income was supported by a note to financial statements which indicates the detail of the total amount reported in the financial statement.

Step by Step Preparation

1. Determine the Revenue or Net Sales.
2. Determine the **Net Purchases, Cost of Sales and Gross Profit**. Note that Freight in and Freight out has a difference. **Freight out is a selling expenses** while **Freight in is accounted as an additional cost in a acquiring a merchandise**. Now that we already computed and determined the the **Net Sales and Cost of Sale of Erwin's Auto Trading** we will compute on the **Gross profit earned by the business**. In computing the **gross profit** we will **deduct the cost of sale to the computed net sales**.
3. Determine the **selling and administrative expenses**. Some of the merchandising entity allocates their expenses for administration and selling department. In the actual practice management accountant can create charts of account for each department instead of allocation. It will be easy for them to monitor the performance of this department in the operation and make decisions for budgeting, cost cutting and improvements.
4. **Compute for the Net Income**. We cannot complete the elements of Statement of Comprehensive Income in total after completing the all the necessary schedules as basis for the detail of the element of Statement of Comprehensive Income.

Example of Multi-Step Statement of Comprehensive Income with Notes to Financial Statement

Erwin's Auto Trading				
Statement of Comprehensive Income				
For the Year Ended December 31,2019				
	Net Sales (Note 1)		₱1,468,000.00	
Less:	Cost of Sales (Note 3)		693,000.00	
	Gross Profit			₱775,000.00
	Operating Expenses			
Less:	Selling Expense (Note 4)		152,500.00	
	Administrative Expense (Note 5)		122,500.00	
	Total Operating Expense			₱275,000.00
	Net Income			₱500,000.00

Figure 3. Statement of Comprehensive Income with Notes to Financial Statement

Note 1	Net Sales				
	Sales			₱1,500,000.00	
Less	Sales Discount			12,000.00	
	Sales Return and Allowances			20,000.00	
	Net Sales			₱1,468,000.00	
Note 2	Net Purchases				
	Purchases			₱300,000.00	
Add :	Freight-in			25,000.00	
	Total Purchases			₱325,000.00	
Less	Purchase Discounts			50,000.00	
	Purchase Return and Allowances			82,000.00	
	Net Purchases			₱193,000.00	
Note 3.	Cost of Sales				
	Merchandise Inventory (1/1/2019)			₱1,000,000.00	
Add	Net Purchases (Note 2)			193,000.00	
	Total Goods Available for Sale			₱1,193,000.00	
Less:	Merchandise Inventory (12/31/2019)			500,000.00	
	Cost of Sales			₱693,000.00	
Notes 4.	Selling Expenses				
	Salaries Expenses			₱9,000.00	
	Rent Expenses			15,000.00	
	Utilities Expenses			3,000.00	
	Taxes and Licenses			4,500.00	
	Repairs and Maintenance			7,500.00	
	Depreciation Expenses			4,500.00	
	Commission Expenses			60,000.00	
	Freight Out			40,000.00	
	Representation Expenses			9,000.00	
	Selling Expenses			₱152,500.00	
Notes 5	Administrative Expenses				
	Salaries Expenses			₱21,000.00	
	Rent Expenses			35,000.00	
	Utilities Expenses			7,000.00	
	Taxes and Licenses			10,500.00	
	Repairs and Maintenance			17,500.00	
	Depreciation Expenses			10,500.00	
	Representation Expenses			21,000.00	
	Administrative Expenses			₱122,500.00	



Let Us Practice

I. Write True if the statement is true and write False if the statement is false. Write your answer on a separate sheet of paper.

- _____ 1. The Chart of Accounts for merchandising entity differs from that of a service entity.
- _____ 2. The difference between revenues from sales and cost of sales is operating income.
- _____ 3. Retailers and wholesalers are both considered merchandisers.
- _____ 4. The steps in the accounting cycle are different for a merchandising company than for a service company.
- _____ 5. Sales minus operating expenses equals gross profit.
- _____ 6. The multiple-step form of income statement is easier to read than the single-step form.
- _____ 7. The gross profit section for a merchandising company appears on both the multiple-step and single-step forms of an income statement.
- _____ 8. Sales Allowances and Sales Discounts are both designed to encourage customers to pay their accounts promptly.
- _____ 9. A multiple-step income statement provides users with more information about a company's income performance.
- _____ 10. If a merchandising company sells land at more than its cost, the gain should be reported in the sales revenue section of the income statement.

II. Supply the missing elements of Statement of Comprehensive Income. Write your answer on separate sheet of paper.

Sales	₱120,000.00	6. ?	11. ?
Merchandise Beginning Inventory	₱20,000.00	7. ?	12. ?
Purchases	1. ?	₱6,000.00	₱23,400.00
Purchase Discount	₱5,000.00	₱600.00	₱2,400.00
Total Goods Available for Sale	2. ?	₱7,800.00	₱95,000.00
Merchandise Inventory, End	₱20,000.00	8. ?	13. ?
Cost of Sales	₱70,000.00	₱3,500.00	₱78,000.00
Gross Profit	3. ?	9. ?	₱37,000.00
Selling Expenses	₱1,500.00	10 ?	₱7,000.00
General Administrative Expenses	4. ?	₱2,500.00	14 ?
Total Operating Expense	₱40,000.00	₱3,125.00	15 ?
Net Income (Loss)	5. ?	-₱1,000.00	₱16,400.00



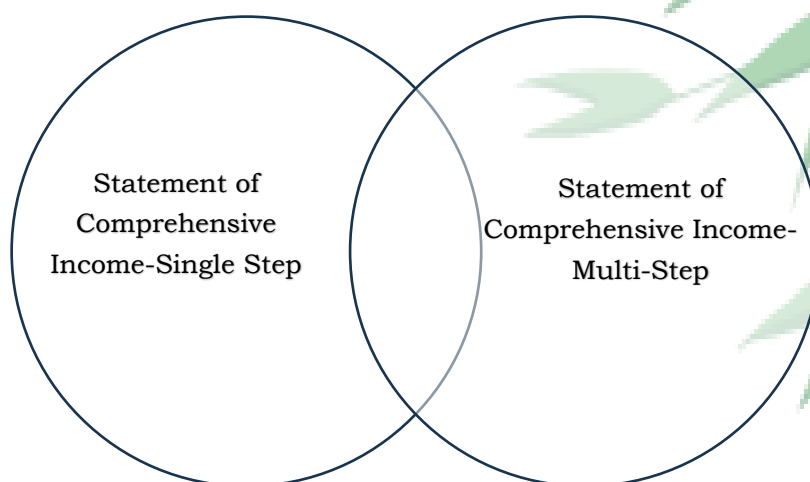
Let Us Remember

1. **Merchandising Statement of Comprehensive Income uses a multi-step proforma**, wherein various stages should be done in able to arrive at its Net income. Its show the flow of how was a product acquired, sold to get the net income which is an addition on our owner's equity. Merchandising Statement of Comprehensive Income was supported by a note to financial statements which indicates the detail of the total amount reported in the financial statement.
2. **Multi-Step Statement of Comprehensive Income** is characterized by presentation or several sub-total until net income is determined.
3. **Gross Profit** is computed as net sales less cost of sales or cost of goods sold.
4. **Operating Expenses** adding all the expenses incurred during the operation.
5. **Net Income or Net Loss** is computed as gross profit less operating expenses



Let Us Appreciate

Use the Venn Diagram to present the difference and similarities between a Statement of Comprehensive Income-Single Step with Statement of Comprehensive Income-Multi-Step. Write your naswer on separate sheet of paper.





Let Us Practice More

I. Assume that you are a company financial accounting practitioner. Prepare an example of Statement of Comprehensive Income-Multi-Step with a note to financial statement as of December 31, 2019. Use an m.s excel application in presenting your report.

Rubrics	
10 pts.	Correct format and all key feature of SCI-Multi-Step was presented very well. Elements was presented completely and with correct computation. Double ruling of final answer was also executed.
7 pts.	Correct format and all key features of SCI-Multi-Step was presented however double ruling was not executed and presentation of elements is not organized.
5 pts.	Incorrect format of SCI-Multi-Step. Lacks key feature or element, double ruling was not executed yet it was neatly presented
3 pts.	Presented output does not comply with correct format, miss out key features and report was unorganized.

II. Prepare the Statement of Comprehensive Income with notes to financial statement for December 31, 2019 of Jai-Jai's Boutique & Merchandise, 20% of rent, depreciation and utility expenses is allocated to the sales office while the rest is for administrative operation. Refer to the details below. Use m.s. excel to presenting your financial report.


Jai -Jai's Boutique & Merchandise	
Sales	₱ 5,000,000.00
Salaries & Expense	₱100,000.00
Supplies Expense	₱150,000.00
Depreciation Expense	₱120,000.00
Utilities Expense	₱80,000.00
Insurance Expense	₱40,000.00
Rent Expense	₱180,000.00
Merchandise Inventory, Beginning	₱100,000.00
Purchases	₱3,000,000.00
Merchandise Inventory, End	₱200,000.00
Sales Discount	₱10,000.00



Evaluation

I. Choose the letter of the correct answer. Write your answer on a separate sheet of paper.

1. Income from operations is gross profit less _____.
 - a. administrative expenses.
 - b. operating expenses.
 - c. other expenses and losses.
 - d. selling expenses
2. An enterprise which sells goods to customers is known as a _____.
 - a. proprietorship
 - b. corporation
 - c. retailer
 - d. service firm
3. Which of the following would not be considered a merchandising company?
 - a. retailer
 - b. wholesaler
 - c. service firm
 - d. dot com firm
4. A merchandising company that sells directly to consumers is a _____.
 - a. retailer
 - b. wholesaler
 - c. broker
 - d. service company
5. The Sales Returns and Allowances account is classified as a(n) _____.
 - a. asset
 - b. contra asset
 - c. expense
 - d. contra revenue
6. Which of the following would not be classified as a contra account?
 - a. Sales
 - b. Sales Returns and Allowances
 - c. Accumulated Depreciation
 - d. Sales Discounts
7. The operating cycle of a merchandising business is _____.
 - a. always one year in length.
 - b. generally, longer than it is for a service company.
 - c. about the same as for a service company.
 - d. generally shorter than it is for a service company.



Problem 1. During 2008, Barbie Salon Enterprises generated revenues of ₱ 60,000. The company's expenses were as follows, cost of goods sold of ₱ 30,000, operating expenses of ₱ 12,000 and a loss on the sale of equipment of ₱ 2,000.

8. How much is the salon's gross profit?
a. ₱ 60,000 b. ₱30,000 c. ₱18,000 d. ₱6,000
9. How much is the salon's income from operations?
a. ₱ 60,000 b. ₱ 30,000 c. ₱ 18,000 d. ₱ 2,000.
10. How much is the salon's net income?
a. ₱ 60,000 b. ₱ 30,000 c. ₱ 18,000 d. ₱ 6,000



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ACKNOWLEDGEMENT

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