

Income Statement – Solution

1. R Sales revenue

NonOp Loss on sale of land

 BTL Discontinued items

OpExp Depreciation expense

NonOp Interest expense

 N/A Dividends paid

OpExp Sales commissions

NonOp Dividend revenue

 N/A Accounts receivable

 COGS Cost of inventory sold

 BTL Extraordinary items

OpExp Utilities expense

OpExp Administrative wages

2.

Wertheim Football Company Income Statement For the year ending December 31, 2013	
Sales	\$ 1,200,000
COGS	\$ 840,000
Gross Margin	\$ 360,000
SG&A	\$ 60,000
Advertising Expense	\$ 40,000
Rent Expense	\$ 25,000
Depreciation Exp.	\$ 50,000
Operating Income	\$ 185,000
Interest Expense	\$ 50,000
Tax Expense	\$ 27,000
Net Income	\$ <u>108,000</u>

$$\text{COGS} = \$1,200,000 \times (1 - 0.3) = \$840,000$$

$$\text{Depreciation} = \$500,000 / 10 = \$50,000$$

$$\text{Taxes} = \$135,000 \times 0.2 = \$27,000$$

3.

Euclid Industries Income Statement For the year ended Dec. 31, 2015	
Sales	\$ 300,000
COGS	\$ 128,000
Gross profit	\$ 172,000
SG&A	\$ 38,000
Operating income	\$ 134,000
Interest Revenue	\$ 4,000
Interest Expense	\$ (14,000)
Loss on sale of equipment	\$ (1,500)
Other expenses	\$ (1,200)
Income before taxes	\$ 121,300
Tax expense	\$ 42,455
Income before extraordinary item	\$ 78,845
Extraordinary loss (net of tax)	\$ (18,000)
Net income	\$ <u>60,845</u>

4. Multiple step:

Ross, Inc. Income Statement For the year ended Dec. 31, 2014	
Sales	\$ 1,800,000
COGS	\$ (980,000)
Gross profit	\$ 820,000
Selling expenses	\$ (90,000)
Administrative expenses	\$ (110,000)
Operating income	\$ 620,000
Interest revenue	\$ 45,000
Interest expense	\$ (30,500)
Loss on sale of land	\$ (30,000)
Income before taxes	\$ 604,500
Tax expense	\$ (181,350)
Income before extraordinary item	\$ 423,150
Extraordinary loss (net of \$42,000 tax)	\$ (98,000)
Net income	\$ <u>325,150</u>
Earnings per share (EPS):	
Income before extraordinary item	\$ 0.70
Extraordinary item	\$ (0.16)
Net income	\$ 0.54
Note:	
\$423,150/600,000 shares = \$0.70 (rounded down)	
\$98,000/600,000 shares = \$(0.16)	
\$325,150/600,000 shares = \$0.54	

Single step:

Ross, Inc. Income Statement For the year ended Dec. 31, 2014	
Sales	\$ 1,800,000
Interest revenue	\$ 45,000
Total revenues and gains	\$ 1,845,000
COGS	\$ (980,000)
Selling expenses	\$ (90,000)
Administrative expenses	\$ (110,000)
Interest expense	\$ (30,500)
Loss on sale of land	\$ (30,000)
Total expenses and losses	\$ (1,240,500)
Income before taxes	\$ 604,500
Tax expense	\$ (181,350)
Income before extraordinary item	\$ 423,150
Extraordinary loss (net of \$42,000 tax)	\$ (98,000)
Net income	\$ <u>325,150</u>
Earnings per share (EPS):	
Income before extraordinary item	\$ 0.70
Extraordinary item	\$ (0.16)
Net income	\$ 0.54
Note:	
\$423,150/600,000 shares = \$0.70 (rounded down)	
\$98,000/600,000 shares = \$(0.16)	
\$325,150/600,000 shares = \$0.54	

5.

Park Corporation Partial Income Statement For the year ended Dec. 31, 2014	
Income from continuing operations	\$ 6,800,000
Discontinued operations:	
Loss from operations (net of \$544,000 of taxes)	\$ (1,056,000)
Loss on disposal (net of \$782,000 of taxes)	\$ <u>(1,518,000)</u>
Loss from discontinued operations	\$ (2,574,000)
Net income	\$ <u>4,226,000</u>

6. None of the losses would be extraordinary except for the loss on the tornado (and only to the extent it is not covered by insurance).

7. $\text{Net Income/Sales} = \$1,060,000 / \$4,460,000 = 23.8\%$

$$\$4,460,000 - \$2,300,000 - \$800,000 - \$300,000 = \$1,060,000$$

To determine whether 23.8% is a “good” number, compare to other firms in the industry and to Ace’s past results.