Income Statement Handout

1. Where in the income statement would you find the items below? Use the following codes for income statement sections:

   Rev – Revenue, COGS – Cost of Goods Sold, OpExp – Operating Expenses
   NonOP – Nonoperating Items, BTL – Below the Line Items, N/A

   ______ Sales revenue

   ______ Loss on sale of land

   ______ Discontinued items

   ______ Depreciation expense

   ______ Interest expense

   ______ Dividends paid

   ______ Sales commissions

   ______ Dividend revenue

   ______ Accounts receivable

   ______ Cost of inventory sold

   ______ Extraordinary items

   ______ Utilities expense

   ______ Administrative wages

2. The following are the financial details for Wertheim Football Company for the year ending December 31, 2013. Construct an income statement using this information.

    a) Revenues totaled $1,200,000.
    b) The gross margin was 30%.
    c) SG&A was $60,000, Advertising Expense was $40,000, and Rent Expense was $25,000.
    d) $500,000 of machinery has a 10-year useful life and no salvage value. Wertheim uses the straight-line depreciation method.
    e) The only debt Wertheim has outstanding is a $1,000,000 note that carries a 5% interest rate.
    f) The tax rate is 20%.

3. With the information below, prepare a multiple-step income statement for Euclid Industries, Inc. for the year ended Dec. 31, 2015. Assume a 35% tax rate.

Interest expense	$14,000
Extraordinary loss (net of tax)	18,000
Cost of goods sold	128,000
Selling, general, & administrative expenses	38,000
Interest revenue	4,000
Loss on sale of equipment	1,500
Other expenses	1,200
Sales revenue	300,000

4. Using the following information, prepare both a single and multiple-step income statement for Ross, Inc. for the year ended December 31, 2014. Include earnings per share (EPS) calculations (assuming that 600,000 shares were outstanding through 2014).

Sales revenue	1,800,000
Interest revenue	45,000
Loss on sale of land	30,000
Cost of goods sold	980,000
Selling expenses	90,000
Administrative expenses	110,000
Extraordinary loss (before tax)	140,000
Interest expense	30,500
Tax rate = 30%	

5. Park Corporation had two divisions: steel and ball bearings. The steel division was unprofitable. On July 1, 2014, Park sold the division for a $2.3 million loss. Prior to the sale the division had lost $1.6 million in 2014. Park had income from continuing operations of $6.8 million (after taxes) and its income tax rate was 34%. Prepare the 2014 income statement from the income from continuing operations line (ignore EPS disclosures) assuming a December 31 year-end.

6. Which of the following should be classified as extraordinary items?

    a. A loss on foreign currency held in the East Asian operations of the company.
    b. A loss on the sale of machinery.
    c. The loss on the clothing inventory due to a change in customer preferences.
    d. A loss from a factory being shut down due a labor disturbance.
    e. Uninsured losses from tornado damage. What if insurance covered the loss?

7. Data from Ace Inc.'s income statement is presented below:

Sales	$4,460,000
Cost of goods sold	2,300,000
Selling expenses	800,000
Administrative expenses	300,000

What is Ace's net profit margin? Is Ace a good investment? Why?