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Part III Analyzing Financial Information

Unit 12 Expanded Multi-Step Income Statement

Note: The multi-step income statement on page 7 has been broadened in this unit to include many important items.

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 and Excel Statistics Lab Manual.

- I. **Income tax liability must be disclosed.**
- II. **Discontinued operations must be reported.**

- A. Often a business has a separately identifiable operation (subsidiary).
- B. Gains or losses from the disposable of these business segments must be separately reported.

- III. **Extraordinary gains and losses are not part of normal business activity.**

- A. These items happen infrequently.
- B. They must be reported separately.

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- IV. **The cumulative effect of accounting changes on income must be reported.**

- A. A newly required accounting standard can change income.
- B. A change from one acceptable accounting principle to another can change income.

Quick Company Income Statement For Period Ending December 31, 1997		
Revenue		
Sales Revenue	\$4,000,000	
Cost of Goods Sold	<u>2,000,000</u>	
Gross Profit		\$2,000,000
Operating Expenses		
Bad Debts	\$ 40,000	
Depreciation	300,000	
Interest	1,000,000	
Miscellaneous	20,000	
Utilities	40,000	
Wages	<u>100,000</u>	
Total operating expenses		<u>1,500,000</u>
Operating income before taxes		\$ 500,000
Income Taxes		<u>150,000</u>
Operating income after taxes		\$ 350,000
Gain from discontinued operation		<u>50,000</u>
Income before extraordinary items and cumulative effects of accounting changes		\$ 400,000
Extraordinary gain (net of taxes)		<u>110,000</u>
Subtotal		\$ 510,000
Cumulative effect of changes in accounting principles (net of \$5,000 taxes)		<u>(10,000)</u>
Net income		<u>\$ 500,000</u>