

Income Statement Comparison

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Income Statement Comparison

- The income statement, the first of the standard four – income statement, statement of retained earnings, balance sheet, and statement of cash flows, is intended to answer questions.
- Those questions are basic, but modified slightly by the type of company – service, merchandiser, or manufacturer.
- The presentation can be modified by the company's preferences.

Income Statement Comparison

- The basic questions are:
 - For a service company - Did we cover the cost of service personnel wages and salaries as well as repair parts?
 - For a merchandiser or manufacturer - Did we cover the cost of the goods we sold?

Income Statement Comparison

- Did we cover the cost of selling those items?
 - ❖ This is the selling expenses associated with the sale and nothing more.
- Did we cover the cost general and administrative expenses?
 - ❖ These are the costs of “the front office departments.”

Income Statement Comparison

- This is an example of an income statement for a service company. It is also a “single-step income statement” as it has all the revenues grouped into one line and does not break out the expenses into subcategories. In this example there is no breakout of primary expenses as you will see in other income statements. However, it does answer the question “Is the company operating with a positive net income?”

Miramar Accounting Services		
Income Statement		
For the Month Ended January 31, 2015		
Service revenues		\$12,540
Expenses		
Salaries & wages expense	\$4,570	
Building depreciation expense	3,250	
Equipment depreciation expense	1,235	
Repair parts expense	985	
Utilities expense	310	
Office supplies expense	145	
Total operating expenses		10,495
Operating income (loss)		\$2,045

Income Statement Comparison

- This is an income statement from a merchandising operation. It is a multi-step income statement format answering several questions. The first question is “Did we cover the cost of the goods we sold?” With revenues of \$19,355 less a cost of goods sold of \$8,125, the answer is “Yes, with a gross profit of \$11,230.”
- The next question is “Did we cover the cost of selling those goods?” With a gross profit of \$11,230 less operating expenses, which in this example are all selling related, of \$9,440, the answer is “Yes, we have \$1,790 to cover general and administrative expenses.”

Miramar Merchandisers Inc.		
Income Statement		
For the Month Ended January 31, 2015		
Sales revenues		\$19,355
Less: Cost of goods sold		8,125
Gross profit		11,230
Less operating expenses		
Salaries & wages expense	\$4,570	
Building depreciation expense	3,250	
Equipment depreciation expense	1,235	
Utilities expense	310	
Selling supplies expense	75	
Total operating expenses		9,440
Operating income (loss)		\$1,790

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- In this income statement for a manufacturing company it answers the question “Did we recover the cost of our sold items?” Yes, by \$12,200.”
- “Did we cover our selling, marketing, and G&A expenses?” “Yes, and we ended up with an operating income of \$1,700.”

Miramar Manufacturers Corporation		
Income Statement		
For the Month Ended January 31, 2015		
Sales revenues		\$21,450
Less: Cost of goods sold		9,250
Gross profit		12,200
Less operating expenses		
Selling expenses	\$4,850	
Marketing expenses	2,975	
General and administrative expenses	2,675	
Total operating expenses		10,500
Operating income (loss)		\$1,700

Income Statement Comparison

- Within both financial and managerial constraints the company has latitude in the presentation of the income statement.
- Textbook accounting will not reveal this in clear detail.
- However, for financial reporting there is a major constraint – What the company did last year the company should do this year.

Income Statement Comparison

- With financial reporting consistency is a requirement. While a company can change its format of presentation, it must justify that change and it cannot be to confuse the user of the report or conceal information.

Income Statement Comparison

- Within managerial reporting, all reports remain inside the company so the format and presentation is that desired by management.
- Remember, managers manage from detail. Therefore expect to provide maximum detail appropriate to the internal user.
- Therefore the presented income statements are learning tools, not constrained formats.

Income Statement Comparison

The end.