

## CONCEPT: MULTI-STEP INCOME STATEMENT

- A **multi-step income statement** shows a few \_\_\_\_\_ before arriving at \_\_\_\_\_.
- **Gross Profit** = \_\_\_\_\_ – \_\_\_\_\_
  - Gross profit is sometimes called the **gross margin**
- **Operating Expenses** – expenses necessary in the regular course of business
  - This includes payroll expenses, selling, general and administrative expenses, rent expense, etc.
- **Income from Operations** = \_\_\_\_\_ – \_\_\_\_\_
- **Non-operating Activities** – revenues/gains and expenses/losses that are not in the ordinary course of business
  - **Interest Revenue** – earned from notes receivable or investments
  - **Dividend Revenue** – earned from investments in other company's stock
  - **Rent Revenue** – subletting part of your space
  - **Gain/Loss** – when we sell something at a profit/loss, but the sale is not in our ordinary course of business
    - > Selling old equipment, selling investments, selling land
  - **Interest Expense** – paid on notes payable
  - **Other Losses** can arise from employee strikes, abandoned property, accidents
- **Income before Income Taxes** = \_\_\_\_\_ – \_\_\_\_\_
  - Income Tax Expense is always the last expense shown before net income.
- **Net Income** = \_\_\_\_\_ – \_\_\_\_\_

<b>Sales</b>		
Sales revenue		\$480,000
Less: Sales returns and allowances	\$12,000	
Sales discounts	8,000	20,000
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Net sales		460,000
<b>Cost of goods sold</b>		<hr/>
		316,000
<b>Gross profit</b>		<hr/>
		144,000
<b>Operating expenses</b>		
Salaries and wages expense	64,000	
Utilities expense	17,000	
Advertising expense	16,000	
Depreciation expense	8,000	
Freight-out	7,000	
Insurance expense	2,000	
		<hr/>
Total operating expenses		114,000
Income from operations		<hr/>
		30,000
<b>Other revenues and gains</b>		
Interest revenue	3,000	
Gain on disposal of plant assets	600	3,600
		<hr/>
<b>Other expenses and losses</b>		
Interest expense	1,800	
Casualty loss from vandalism	200	2,000
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Income before income taxes		31,600
Income tax expense		<hr/>
		10,100
<b>Net income</b>		<hr/>
		\$ 21,500

**EXAMPLE:** Use the following information for Cool Corp. for the year ended December 31, 2018.

Gain on Sale of Land	\$9,000	Sales Revenue	\$443,000
Interest Expense	\$4,000	Rent Expense	\$36,000
Cost of Goods Sold	\$136,000	Sales Discounts	\$23,000
Payroll-related Expenses	\$75,000	General, and Administrative Expense	\$58,000

The company has a tax rate of 40%. Prepare a multi-step income statement.

Cool Corp.	
Income Statement	
For the year ended December 31, 2018	
<b>Sales</b>	
<b>COGS</b>	
<b>Gross Profit</b>	
<b>Operating Expenses</b>	
<b>Other Revenues and Gains</b>	
<b>Other Expenses and Losses</b>	
<b>Income before Income Taxes</b>	
<b>Income Tax Expense</b>	
<b>Net Income</b>	