

CHAPTER 4

INCOME STATEMENT AND RELATED INFORMATION

Intermediate Accounting
IFRS Edition

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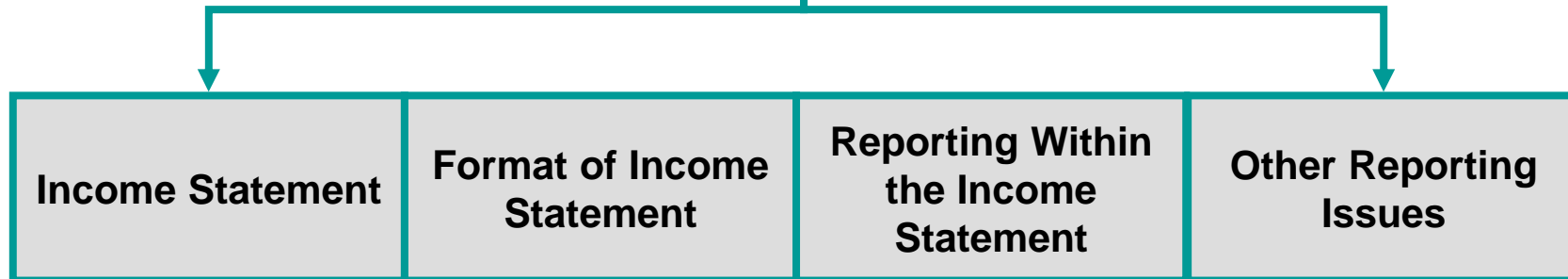
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Learning Objectives

1. Understand the uses and limitations of an income statement.
2. Understand the content and format of the income statement.
3. Prepare an income statement.
4. Explain how to report items in the income statement.
5. Identify where to report earnings per share information.
6. Explain intraperiod tax allocation.
7. Understand the reporting of accounting changes and errors.
8. Prepare a retained earnings statement.
9. Explain how to report other comprehensive income.

Income Statement and Related Information



- Usefulness
- Limitations
- Quality of Earnings

- Elements
- Minimum disclosure
- Intermediate components
- Illustration
- Condensed income statements

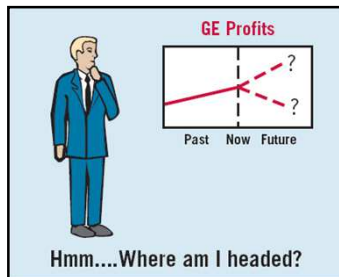
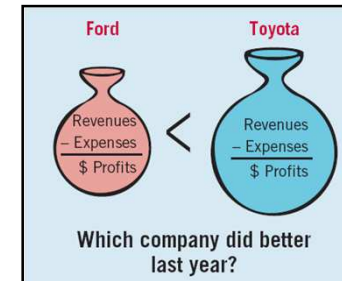
- Gross profit
- Income from operations
- Income before income tax
- Net income
- Non-controlling interests
- Earnings per share
- Discontinued operations
- Intraproduct tax allocation
- Summary

- Accounting changes and errors
- Retained earnings statement
- Comprehensive income
- Changes in equity statement

Income Statement

Usefulness

- Evaluate past performance.



- Predicting future performance.

- Help assess the risk or uncertainty of achieving future cash flows.

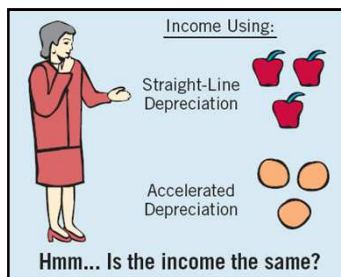
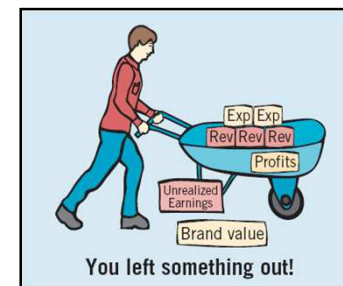
Siemens ¹	Recurring?
Income for Year Ended 12/31/11	
Revenues	
– Operating expenses	
Operating income	Yes
Discontinued operations	No
\$ Net Income	?

Recurring items are more certain in the future.

Income Statement

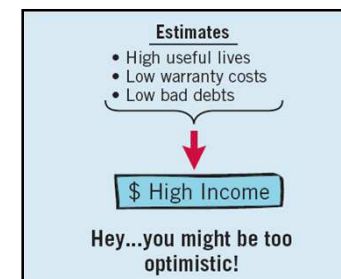
Limitations

- Companies omit items that cannot be measured reliably.



- Income is affected by the accounting methods employed.

- Income measurement involves judgment.



Income Statement

Quality of Earnings

Companies have incentives to **manage income** to meet or beat market expectations, so that

- market price of stock increases and
- value of management's compensation increase.

Quality of earnings is reduced if earnings management results in information that is less useful for predicting future earnings and cash flows.

Format of the Income Statement

Elements of the Income Statement

Income – Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from shareholders.

Format of the Income Statement

Elements of the Income Statement

Income includes both revenues and gains.

- **Revenues** - ordinary activities of a company
- **Gains** - may or may not arise from ordinary activities.

Revenue Accounts

- Sales
- Fee revenue
- Interest revenue
- Dividend revenue
- Rent revenue

Gain Accounts

- Gains on the sale of long-term assets
- Unrealized gains on available-for-sale securities.

Format of the Income Statement

Elements of the Income Statement

Expenses – Decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to shareholders.

Examples of Expense Accounts

- Cost of goods sold
- Depreciation expense
- Interest expense
- Rent expense
- Salary expense

Format of the Income Statement

Elements of the Income Statement

Expenses includes both expenses and losses.

- **Expenses** - ordinary activities of a company
- **Losses** - may or may not arise from ordinary activities.

Expense Accounts

- Cost of goods sold
- Depreciation expense
- Interest expense
- Rent expense
- Salary expense

Loss Accounts

- Losses on restructuring charges
- Losses on sale of long-term assets
- Unrealized losses on available-for-sale securities.

Format of the Income Statement

Elements of the Income Statement

IFRS requires, **at a minimum**, the following be presented on the income statement.

- Revenue: Inflow of economic benefits during a period arising from ordinary activities.
- Tax expense.
- Finance costs (hereafter referred to as interest expense).
- Share of the profit or loss of associates and joint ventures accounted for using the equity method.
- A single amount comprising the total of:
 - (i) The post-tax profit or loss of discontinued operations and
 - (ii) The post-tax gain or loss recognized on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.
- Net income or net loss (sometimes referred to as net profit or loss).

Format

Illustration

Includes all of the major items in the list above, except for discontinued operations.

BOC HONG COMPANY			
INCOME STATEMENT			
FOR THE YEAR ENDED DECEMBER 31, 2011			
Sales revenue			
Sales			\$3,053,081
Less: Sales discounts	\$ 24,241		
Sales returns and allowances	56,427		80,668
Net sales revenue			2,972,413
Cost of goods sold			1,982,541
Gross profit			989,872
Selling expenses			
Sales salaries and commissions	202,644		
Sales office salaries	59,200		
Travel and entertainment	48,940		
Advertising expense	38,315		
Freight and transportation-out	41,209		
Shipping supplies and expense	24,712		
Postage and stationery	16,788		
Telephone and Internet expense	12,215		
Depreciation of sales equipment	9,005	453,028	
Administrative expenses			
Officers' salaries	186,000		
Office salaries	61,200		
Legal and professional services	23,721		
Utilities expense	23,275		
Insurance expense	17,029		
Depreciation of building	18,059		
Depreciation of office equipment	16,000		
Stationery, supplies, and postage	2,875		
Miscellaneous office expenses	2,612	350,771	803,799
Other income and expense			
Dividend revenue	98,500		
Rental revenue	42,910		
Gain on sale of plant assets	30,000		171,410
Income from operations			357,483
Interest on bonds and notes			126,060
Income before income tax			231,423
Income tax			66,934
Net income for the year			\$ 164,489
Attributable to:			
Shareholders of Boc Hong			\$ 120,000
Non-controlling interest			44,489
Earnings per share			\$1.74