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

- Income Statement
  - Usefulness
  - Limitations
  - Quality of Earnings

- Format of Income Statement
  - Elements
  - Minimum disclosure
  - Intermediate components
  - Illustration
  - Condensed income statements

- Reporting Within the Income Statement
  - Gross profit
  - Income from operations
  - Income before income tax
  - Net income
  - Non-controlling interests
  - Earnings per share
  - Discontinued operations
  - Intraperiod tax allocation
  - Summary

- Other Reporting Issues
  - Accounting changes and errors
  - Retained earnings statement
  - Comprehensive income
  - Changes in equity statement
Usefulness

- Evaluate past performance.
- Predicting future performance.
- Help assess the risk or uncertainty of achieving future cash flows.

**LO 1** Understand the uses and limitations of an income statement.
Limitations

- Companies omit items that cannot be measured reliably.
- Income is affected by the accounting methods employed.
- Income measurement involves judgment.

LO 1 Understand the uses and limitations of an 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.
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.

*LO 1  Understand the uses and limitations of an income statement.*
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.

LO 2  Understand the content and format of the income statement.
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

*LO 1 Understand the uses and limitations of an 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 to sale of long-term assets
- Unrealized losses on available-for-sale securities.

LO 2  Understand the content and format of the income statement.
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).

LO 2 Understand the content and format of the income statement.
Format

Illustration 4-2

Income Statement

For the Year Ended December 31, 2011

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$3,053,081</td>
</tr>
<tr>
<td>Less: Sales discounts</td>
<td>$24,241</td>
</tr>
<tr>
<td>Sales returns and allowances</td>
<td>$56,427</td>
</tr>
<tr>
<td>Net sales revenue</td>
<td>$2,972,413</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>$1,982,541</td>
</tr>
<tr>
<td>Gross profit</td>
<td>$989,872</td>
</tr>
</tbody>
</table>

Selling expenses

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales salaries and commissions</td>
<td>202,644</td>
</tr>
<tr>
<td>Sales office salaries</td>
<td>59,200</td>
</tr>
<tr>
<td>Travel and entertainment</td>
<td>48,940</td>
</tr>
<tr>
<td>Advertising expense</td>
<td>36,915</td>
</tr>
<tr>
<td>Freight and transportation-out</td>
<td>41,209</td>
</tr>
<tr>
<td>Shipping supplies and expense</td>
<td>24,712</td>
</tr>
<tr>
<td>Postage and stationery</td>
<td>16,788</td>
</tr>
<tr>
<td>Telephone and Internet expense</td>
<td>12,215</td>
</tr>
<tr>
<td>Depreciation of sales equipment</td>
<td>9,005</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>453,028</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Officers’ salaries</td>
<td>186,000</td>
</tr>
<tr>
<td>Office salaries</td>
<td>61,200</td>
</tr>
<tr>
<td>Legal and professional services</td>
<td>23,721</td>
</tr>
<tr>
<td>Utilities expense</td>
<td>23,275</td>
</tr>
<tr>
<td>Insurance expense</td>
<td>17,029</td>
</tr>
<tr>
<td>Depreciation of building</td>
<td>18,059</td>
</tr>
<tr>
<td>Depreciation of office equipment</td>
<td>16,000</td>
</tr>
<tr>
<td>Stationery, supplies, and postage</td>
<td>2,875</td>
</tr>
<tr>
<td>Miscellaneous office expenses</td>
<td>2,612</td>
</tr>
<tr>
<td>Total Administrative expenses</td>
<td>350,771</td>
</tr>
<tr>
<td>Other income and expense</td>
<td>803,799</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend revenue</td>
<td>98,500</td>
</tr>
<tr>
<td>Rental revenue</td>
<td>42,910</td>
</tr>
<tr>
<td>Gain on sale of plant assets</td>
<td>30,000</td>
</tr>
<tr>
<td>Income from operations</td>
<td>357,483</td>
</tr>
<tr>
<td>Interest on bonds and notes</td>
<td>126,060</td>
</tr>
<tr>
<td>Income before income tax</td>
<td>231,423</td>
</tr>
<tr>
<td>Income tax</td>
<td>66,934</td>
</tr>
<tr>
<td>Net income for the year</td>
<td>$164,489</td>
</tr>
<tr>
<td>Attributable to:</td>
<td></td>
</tr>
<tr>
<td>Shareholders of Boc Hong</td>
<td>$120,000</td>
</tr>
<tr>
<td>Non-controlling interest</td>
<td>44,489</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>$1.74</td>
</tr>
</tbody>
</table>