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 =*** ________________________ – __________________________

Sales		
Sales revenue		$480,000
Less: Sales returns and allowances	$12,000	
Sales discounts	8,000	20,000
Net sales		460,000
Cost of goods sold		316,000
Gross profit		144,000
Operating expenses		
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	
Total operating expenses		114,000
Income from operations		30,000
Other revenues and gains		
Interest revenue	3,000	
Gain on disposal of plant assets	600	3,600
Other expenses and losses		
Interest expense	1,800	
Casualty loss from vandalism	200	2,000
Income before income taxes		31,600
Income tax expense		10,100
Net income		$ 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
Sales
COGS
Gross Profit **Operating Expenses**
Other Revenues and Gains
Other Expenses and Losses
Income before Income Taxes
Income Tax Expense
Net Income