

## COMPARISON OF SINGLE-STEP and MULTIPLE-STEP INCOME STATEMENTS ©

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**Note: the single-step format:**

- shows all revenues together at the top.
- shows all expenses together after revenues.

HANSON RETAIL FOOD STORE, INC.  
Income Statement  
Year Ended December 31, 2006

|                            |           |           |
|----------------------------|-----------|-----------|
| Net Sales                  |           | \$262,000 |
| Rent revenue               |           | 6,900     |
| Interest revenue           |           | 1,400     |
|                            |           | -----     |
| Total Revenue              |           | 270,300   |
| Expenses:                  |           |           |
| Cost of Goods Sold         | \$159,000 |           |
| Salaries and wages         | 45,000    |           |
| Advertising                | 12,400    |           |
| Freight out                | 4,000     |           |
| Depreciation               | 5,000     |           |
| Taxes and licenses         | 3,000     |           |
| Rent                       | 6,300     |           |
| Loss on sale of assets     | 250       |           |
| Interest expense           | 350       |           |
| * Income taxes             | 2,000     |           |
|                            | -----     |           |
| Total expense              |           | 237,300   |
|                            |           | -----     |
| Net Income                 |           | \$ 33,000 |
|                            |           | =====     |
| **Basic Earnings Per Share |           | \$ 3.30   |

\* As income taxes only exist if the business is a corporation, this account would not exist if the business were a sole proprietorship or partnership.

\*\* According to GAAP Earnings Per Share (EPS) is required to be shown on the income statement for publicly traded corporations (those corporations that sell their stock in the open stock market). This is not required of private (closely held) corporations. The EPS above is based upon the assumption that there are 10,000 shares of common stock outstanding and that this is a publicly traded corporation.

**Note: the multiple-step format:**

- shows the gross profit (gross margin) amount as a result of cost of goods sold being subtracted from net sales on the statement.
- usually shows much more detail of each type of category of revenue and expense than the single-step income statement.
- shows all other revenues, except sales revenues, below the operating expenses in an "other revenue" section near the bottom of the statement.
- shows interest expense and other non-operating expenses in an "other expense" section near the bottom of the statement.
- shows income taxes separately from all other expenses just before net income.

HANSON RETAIL FOOD STORE, INC.  
Income Statement  
Year Ended December 31, 2006

|                                    |           |             |
|------------------------------------|-----------|-------------|
| Sales                              |           | \$266,000   |
| Less: Sales returns and allowances | \$ 3,000  |             |
| Sales discounts                    | 1,000     | 4,000       |
|                                    | -----     | -----       |
| Net sales                          |           | 262,000     |
| Cost of goods sold:                |           |             |
| Beginning inventory                | \$ 20,000 |             |
| Purchases                          | 165,000   |             |
|                                    | -----     |             |
| Goods available for sale           | 185,000   |             |
| Ending inventory                   | 26,000    |             |
|                                    | -----     |             |
| Cost of goods sold                 |           | 159,000     |
|                                    |           | -----       |
| Gross Margin (or Gross Profit)     |           | 103,000     |
| Operating expenses:                |           |             |
| Salaries and wages                 | \$ 45,000 |             |
| Advertising                        | 12,400    |             |
| Freight out                        | 4,000     |             |
| Depreciation                       | 5,000     |             |
| Taxes and licenses                 | 3,000     |             |
| Rent                               | 6,300     |             |
|                                    | -----     |             |
| Total operating expenses           |           | 75,700      |
|                                    |           | -----       |
| Income from operations             |           | 27,300      |
| Other income:                      |           |             |
| Interest revenue                   | 1,400     |             |
| Rent revenue                       | 6,900     | 8,300       |
| Other expense:                     |           |             |
| Interest expense                   | ( 350)    |             |
| Loss on sale of assets             | ( 250)    | ( 600)      |
|                                    | -----     | -----       |
| Income before taxes                |           | 35,000      |
| Income taxes                       |           | 2,000       |
|                                    |           | -----       |
| Net Income                         |           | \$ 33,000   |
|                                    |           | =====       |
| <br>**Basic Earnings Per Share     |           | <br>\$ 3.30 |

Publicly traded corporations usually publish a summarized version of their income statement, sometimes in single-step format and sometimes in multiple-step format. Shown below are both statements in a summarized format.

**Single-step:**

HANSON RETAIL FOOD STORE, INC.  
Income Statement  
Year Ended December 31, 2006

|                            |           |           |
|----------------------------|-----------|-----------|
| Net Sales                  |           | \$262,000 |
| Other revenue              |           | 8,300     |
|                            |           | -----     |
| Total Revenue              |           | 270,300   |
| Expenses:                  |           |           |
| Cost of Goods Sold         | \$159,000 |           |
| Operating expenses         | 75,700    |           |
| Other expenses             | 600       |           |
| Income taxes               | 2,000     |           |
|                            | -----     |           |
| Total expense              |           | 237,300   |
|                            |           | -----     |
| Net Income                 |           | \$ 33,000 |
|                            |           | =====     |
| **Basic Earnings Per Share |           | \$ 3.30   |

**Multiple-step:**

HANSON RETAIL FOOD STORE, INC.  
Income Statement  
Year Ended December 31, 2006

|                                |  |           |
|--------------------------------|--|-----------|
| Net Sales                      |  | \$262,000 |
| Cost of goods sold             |  | 159,000   |
|                                |  | -----     |
| Gross Margin (or Gross Profit) |  | 103,000   |
| Operating expenses             |  | 75,700    |
|                                |  | -----     |
| Income from operations         |  | 27,050    |
| Other income and expense (net) |  | 7,700     |
|                                |  | -----     |
| Income before taxes            |  | 35,000    |
| Income taxes                   |  | 2,000     |
|                                |  | -----     |
| Net Income                     |  | \$ 33,000 |
|                                |  | =====     |
| **Basic Earnings Per Share     |  | \$ 3.30   |