# Preparing a Multiple‐Step Income Statement

**Purpose of Assignment**

The purpose of this assignment is to help you become familiar with the parts of the multiple‐step income statement.

**Assignment Steps**

**Resources:** *Financial Accounting: Tools for Business Decision Making*

**Scenario:**An inexperienced accountant prepared this condensed income statement for Simon Company, a retail firm that has been in business for a number of years.

| **SIMON COMPANY**  **Income Statement For the Year Ended December 31, 2017** |  |
| --- | --- |
| Revenues |  |
| Net sales | $850,000 |
| Other revenues | 22,000 |
|  | 872,000 |
| Cost of goods sold | 555,000 |
| Gross profit | 317,000 |
| Operating expenses |  |
| Selling expenses | 109,000 |
| Administrative expenses | 103,000 |
|  | 212,000 |
| Net earnings | $105,000 |

As an experienced, knowledgeable accountant, you review the statement and determine the following facts:

1. Net sales consist of: sales $911,000, less freight-out on merchandise sold $33,000, and sales returns and allowances $28,000.
2. Other revenues consist of sales discounts $18,000 and rent revenue $4,000.
3. Selling expenses consist of salespersons' salaries $80,000, depreciation on equipment $10,000, advertising $13,000, and sales commissions $6,000.  The commissions represent commissions paid. At December 21, $3,000 of commissions have been earned by salespersons but have not been paid.  All compensation should be recorded as Salaries and Wages Expense.
4. Administrative expenses consist of office salaries $47,000, dividends $18,000, utilities $12,000, interest expense $2,000, and rent expense $24,000, which includes prepayments totaling $6,000 for the first quarter of 2018.

**Prepare** a detailed multi-step income statement. Assume a 25% tax rate.

**Show** your work on the Excel® spreadsheet. No APA paper is due this week for this assignment.

**Clarification on this assignment:**

Class, this assignment tends to be confusing for students, so let me give you a little clarification.

The instructions say "As an experienced, knowledgeable accountant, you review the statement and determine the following facts:..."  Please note, this DOES NOT MEAN that the "facts" are correct answers. The inexperienced accountant made errors, so your "determination" means you understand the errors that were made and now you must prepare a CORRECTED income statement. You must determine what the errors are in order to prepare the correct statement. to make this a little easier, I'll tell you what you should end up with when you have a "correct" income statement.  Your net income should be $67,500.  Use examples in the textbook for a classified income statement to complete this. Some students separate out the selling expenses from the general and administrative expenses and some combine them. I do not care which way you do it. You can separate them, or you can combine them all under just "Operating Expenses". By combine, I do not mean give me just one number for all the expenses. You need to list everything separately, like Salaries and wages expense, Rent expense, etc. I just mean some people have a category for the selling expenses and then a category for general and administrative expenses instead of just one category of operating expenses.  You can do it either way. I'm just looking for correct amounts and expenditures. Remember the rules, like: dividends are NOT expenses, prepaid items are NOT expenses, amounts owed but not yet paid ARE expenses, etc. Refer to what you have learned over the past couple of weeks and see if you can determine the correct items that belong on the statement to calculate the correct net income.