

Multiple-Step Income Statement

Love Thy Pet Inc.,
Income Statement
For the Year Ended, December 31, 2007

Sales revenues		
Sales		\$ XXX
Less: Sales returns and allowances	\$ XXX	
Sales discounts	<u>XXX</u>	<u>XXX</u>
Net Sales		XXX
Cost of goods sold		<u>XXX</u>
Gross Profit		XXX
Operating expenses		
Store salaries expense	XXX	
Administrative salaries expense	XXX	
Advertising expense	XXX	
Utilities expense	XXX	
Depreciation expense—store equipment	XXX	
Freight-out	XXX	
Property tax expense	XXX	
Insurance expense	<u>XXX</u>	
Total operating expenses		<u>XXX</u>
Income from operations		XXX
Other revenues and gains		
Interest revenue	XXX	
Gain from sales of assets	<u>XXX</u>	
	XXX	
Other expenses and losses		
Interest expense	XXX	
Loss on sale of assets or casualty	<u>XXX</u>	
		<u>XXX</u>
Income before income taxes		XXX
Income tax expense		<u>XXX</u>
Net Income		\$ <u>XXX</u>

Steps to prepare a multiple-step Income statement

- Step 1.** Prepare the header which includes the company name, the title of the statement and the period of the statement.
- Step 2.** The first line of the body of the statement is a title. The title is “Sales revenues.”
- Step 3.** The second line of the body is the sales. Place the amount in the right hand column. Don’t forget your \$ sign.
- Step 4.** The third line of the body is “Less: Sales returns and allowance” and the fourth line of the body is “Sales discounts.” Place the amounts in the left hand column. Subtotal these two accounts by adding them together. Place the subtotal in the right hand column on the same line as Sales discounts. Don’t forget the \$ sign.
- Step 5.** The fifth line is titled “Net sales.” To get the amount you must take sales and subtract the total of sales returns and allowances plus sales discounts. Place this amount in the right hand column on the fifth line.
- Step 6.** The title of line six is “Cost of goods sold” if you need to compute this amount use the other handout. Place the amount in the right hand column.
- Step 7.** Subtract Cost of goods sold from the net sales amount to get Gross Profit. Place this amount in the right hand column. The title for line seven is “Gross Profit.”
- Step 8.** Line eight is just the title “Operating expenses.” There is no amount in either column.
- Step 9.** The next few lines are a list of your operating expenses. Place the amount for those expenses in the left hand column. In a three column statement these amounts should be in the far left hand column.
- Step 10.** Total all of the operating expenses and place the amount in the right hand column. Title that line “Total operating expenses.”
- Step 11.** The next line will be titled “Other revenues and gains.” This is just a title there will be no amount in either column.
- Step 12.** The next few lines will be a list of other revenues and gains by account name. Add these totals together and place them in the middle or left hand column. The total of these should be kept in the middle or left hand column under the amounts.
- Step 13.** The next line is titled “Other expenses and losses.” This again is only a title and has no amount in the either column.

- Step 14.** List each of the other expense and losses by account title. Put their amounts in the middle (if a three column statement) or left hand column (if a two column statement). Total them and keep the total in the same column.
- Step 15.** Subtract the expense and losses from the gains and revenues. Place the total in the right hand column with no title. If the revenues are more than add to the Income from operations. If the expenses are higher subtract them from Income from operations.
- Step 16.** The next line is title “Income before income taxes.” You get this amount by either add or subtracting the total of step 15 from Income form operations.
- Step 17.** The next line is titled “Income tax expense.” You get this amount from multiplying Income before income tax by the income tax rate. Place this amount in the right hand column.
- Step 18.** The last line is titled “Net Income.” You get this amount by subtracting income tax expense from income before income taxes. The amount is place in the right hand column with a \$ sign and doubled underlined.