Preparing a Multiple Step Income Statement

The adjusted trial Balance for the Year ended December 31, 2010, For ELM Company is shown below:

ELM Company
Adjusted Trial Balance
For the Year ended December 31, 2010

	Dr	**Cr**
Cash	14,500	
Accounts Receivable	11,100	
Merchandise Inventory	29,000	
Prepaid Insurance	2,500	
Store Equipment	95,000	
Accumulated Depreciation		18,000
Notes Payable		25,000
Accounts Payable		10,600
Common Stock		70,000
Retained Earnings		11,000
Dividends	12,000	
Sales		536,800
Sales Returns and Allowances	6,700	
Sales Discounts	5,000	
Cost of Goods Sold	363,400	
Freight-Out	7,600	
Advertising Expense	12,000	
Store Salaries Expense	56,000	
Utilities Expense	18,000	
Rent Expense	24,000	
Depreciation Expense	9,000	
Insurance Expense	4,500	
Interest Expense	3,600	
Interest Revenue		2,500
Total	**673,900**	**673,900**

Instructions: Given this data, prepare a multiple-Step Income statement for ELM Company, assuming a tax rate of 30%.

What to do: Remember to always label your Income statements with the company name, Income statement and for period ending. When doing a multiple step income statement, one must remember the key elements.

They are: Net Sales, Cost of Goods Sold, Gross Profit, Total Operating Expenses, net gain/loss from other activities, Income before taxes, Income tax expense, and Net Income. These items will be listed on the right hand column of the income statement, and help us understand which accounts we use in what order.

First, we start by determining Net Sales. This is done by taking sales and subtracting sales returns and allowances and sales discounts.
Then, we subtract Cost of Goods Sold from Net Sales to determine Gross Profit.
Next, we total our operating expenses (which are expenses related to operating the business), and subtract them from our Gross Profit to find our Operating Income**.**
Then, we add any other revenues/gains and subtract any other expenses/losses. This gives us our income by taxes.
Multiplying this number by the tax rate gives us our Income tax expense, which when we subtract the two gives us our Net Income, the end goal.

Solution

ELM Company

For the Year ended December 31, 2010

Sales Revenue		536,800	
Less: Sales returns and allowances	6,700		
Sales discounts	5,000	11,700	
Net Sales			525,100
Cost of Goods sold			363,400
Gross Profit			161,700
Operating expenses			
Store Salaries expense		56,000	
Rent Expense		24,000	
Utilities expense		18,000	
Advertising expense		12,000	
Depreciation Expense		9,000	
Freight-out		7,600	
Insurance expense		4,500	
Total Operating expenses			131,100
Income from operations			30,600
Other revenues and gains			
Interest revenue	2,500		
Other expenses and losses			
Interest expense	3,600		
Net Gain/loss from other activities			(1,100)
Income before taxes			29,500
Income tax expense			8,850
Net income			20,650