

# Multiple-Step Format of Income Statement

**“The reporting of Irregular  
Items”**

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# INTRODUCTION

## Single and Multiple-Step Formats- Compared:

- The single-step format consists of just two groupings: revenues and expenses. Expenses are deducted from revenues to arrive at net income or loss, hence the expression “single- step.”
- An early survey in the 70’s of last century was made on 400 companies, almost 80% were found to be employing single-step format as a normal practice, and only 20% employed a simple format of the multiple-step income statement.
- Companies that use the single-step income statement in financial reporting have typically done so because of its simplicity.
- Surprisingly, the reversal has actually occurred in a current survey of 500 companies, where it was found that 81% are employing multiple-step format and only 19% followed single- step, (Kieso et al., 2013).
- Registered companies, since the end of the 70’s, are governed by a “conceptual framework” that sets the objectives and qualities of the information contained in the “financial reporting”, which reflects the essence of creating the Multiple-Step Format.

# Single-Step Format

## Example 1

**CABRERA COMPANY**  
**INCOME STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

**Revenues:**

Net sales	\$2,972,413
Dividend revenue	98,500
Rent revenue	72,910
<u>Total revenues</u>	<u>3,143,823</u>

**Expenses:**

Cost of goods sold	1,982,541
Selling expenses	453,028
Administrative expenses	350,771
Interest expense	126,060
<u>Income tax expense</u>	<u>66,934</u>
<u>Total expenses</u>	<u>2,979,334</u>

<b>Net income :</b>	<u>\$ 164,489</u>
Earnings per common share	\$1.74

# Overriding Rules of the Conceptual F/work

While the GAAP is used to allows flexibility in the presentation of the components of income, the FASB, on the other hand, has developed specific guidelines that deal with the issue in two important areas:

- what to include into income; and
- how to report certain Unusual or Irregular Item, the main purpose of which is to make financial reporting to proprietors, investors and other external users more meaningful in decision making.

# POQUITO INDUSTRIES INC.

## INCOME STATEMENT

Example 2

Multiple-Step Pg 1

### FOR THE YEAR ENDED DECEMBER 31, 2014

Sales revenue		\$1,420,000
Cost of goods sold		<u>600,000</u>
Gross profit		820,000
Selling and administrative expenses		<u>320,000</u>
Income from operations		500,000
Other revenues and gains:		
Interest revenue	\$ 10,000	
Other expenses and losses:		
Loss on disposal of part of Textile Division	(5,000)	
Loss on sale of investments	<u>(30,000)</u>	<u>(25,000)</u>
Income from operations		475,000
Interest expense		<u>(15,000)</u>
Income before income tax		460,000
Income tax		<u>(184,000)</u>
Income from continuing operations		\$ 276,000

(Schedule to be continued on slide # 9)

- Thus, to complete the previous schedule, the accounting profession has adopted a modified all inclusive concept where all Unusual or Irregular Items are recorded as part of net income under “Nonoperating income”. So, the concept has classified Irregular Items into four groups as follows:
  1. Unusual gains and losses.
  2. Discontinued operations.
  3. Extraordinary items.
  4. Non-controlling interest.
- Now let us briefly explain these four Irregular Items in the following two slides:

# Examples of Unusual Gains and Losses

- Losses on the write-down or write-off of receivables; inventories; property, plant, and equipment; deferred research and development costs; or other intangible assets.
- Gains or losses from exchange or translation of foreign currencies, including those relating to major devaluations and revaluations.
- Restructuring charges.
- Other gains or losses from sale or abandonment of property, plant, or equipment used in the business.
- Effects of a strike, including those against competitors and major suppliers.
- Adjustment of accruals on long-term contracts.
- Provided that these Gains and Losses are infrequent or unusual but not both.

## Examples of **Discontinued operations**

The sale by diversified companies of major division that represents only part of their activities as with a Food distributor that decides to sell its fast-food restaurants and discontinue the division's operation.

## Examples of **Extraordinary Items**

These are gains or losses resulting from casualties, an expropriation, or a prohibition under a new law, provided they are both unusual and infrequent.

## Examples of **Noncontrolling Interest**

The share of profit percentage of the Noncontrolling business, less tax.

Continued from slide # 5

Income from continuing operations (Slide No.5) \$ 276,000

Discontinued operations:

Income from operations of Pizza Division, less

applicable income tax of \$24,800 54,000

Loss on disposal of Pizza Division, less

applicable income tax of \$41,000 (90,000) (36,000)

Net income \$240,000

Per share

Income from continuing operations \$2.76

Income from operations of discontinued  
division, net of tax 0.54

Loss on disposal of discontinued operation,  
net of tax (0.90)

Net income \$2.40

## conclusion

To conclude, companies are required to report irregular items in the financial statements so that users can get more useful information to determine the long-run earning power of the company.

**Thank You For Listening**