

**EXERCISE 4-4 (30–35 minutes)**

(a)

**Multiple-Step Form**

**P. Bride Company**

**Income Statement**

**For the Year Ended December 31, 2007**

**(In thousands, except earnings per share)**

<b>Sales .....</b>				<b>\$96,500</b>
<b>Cost of goods sold .....</b>				<b><u>60,570</u></b>
<b>Gross profit on sales .....</b>				<b>35,930</b>
 <b><u>Operating Expenses</u></b>				
<b>Selling expenses</b>				
<b>Sales commissions.....</b>	<b>\$7,980</b>			
<b>Depr. of sales equipment.....</b>	<b>6,480</b>			
<b>Transportation-out.....</b>	<b><u>2,690</u></b>	<b>\$17,150</b>		
<b>Administrative expenses</b>				
<b>Officers' salaries.....</b>	<b>4,900</b>			
<b>Depr. of office furn. and equip.....</b>	<b><u>3,960</u></b>	<b><u>8,860</u></b>		<b><u>26,010</u></b>
<b>Income from operations.....</b>				<b>9,920</b>
 <b><u>Other Revenues and Gains</u></b>				
<b>Rental revenue .....</b>				<b><u>17,230</u></b>
				<b>27,150</b>
 <b><u>Other Expenses and Losses</u></b>				
<b>Interest expense .....</b>				<b><u>1,860</u></b>
 <b>Income before income tax.....</b>				<b>25,290</b>
<b>Income tax .....</b>				<b><u>9,070</u></b>
<b>Net income .....</b>				<b><u>\$16,220</u></b>
 <b>Earnings per share (\$16,220 ÷ 40,550).....</b>				<b><u>\$.40</u></b>

## EXERCISE 4-4 (Continued)

(b) **Single-Step Form**  
**P. Bride Company**  
**Income Statement**  
**For the Year Ended December 31, 2007**  
**(In thousands, except earnings per share)**

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<b>Revenues</b>	
Net sales .....	\$ 96,500
Rental revenue.....	<u>17,230</u>
Total revenues .....	<u>113,730</u>
<b>Expenses</b>	
Cost of goods sold.....	60,570
Selling expenses.....	17,150
Administrative expenses.....	8,860
Interest expense.....	<u>1,860</u>
Total expenses.....	<u>88,440</u>
Income before income tax .....	25,290
Income tax.....	<u>9,070</u>
Net income .....	<u>\$ 16,220</u>
Earnings per share.....	<u>\$ .40</u>

**Note:** An alternative income statement format for the single-step form is to show income tax a part of expenses, and not as a separate item.

(c) **Single-step:**

1. Simplicity and conciseness.
2. Probably better understood by users.
3. Emphasis on total costs and expenses and net income.
4. Does not imply priority of one revenue or expense over another.

**EXERCISE 4-6 (30–40 minutes)**

(a)

**Multiple-Step Form**  
**Whitney Houston Shoe Co.**  
**Income Statement**  
**For the Year Ended December 31, 2007**

Net sales.....			\$980,000
Cost of goods sold .....			<u>496,000</u>
Gross profit on sales .....			484,000
 <b><u>Operating Expenses</u></b>			
<b>Selling expenses</b>			
Wages and salaries.....	\$114,800		
Depr. exp. (70% X \$65,000).....	45,500		
Materials and supplies.....	<u>17,600</u>	\$177,900	
<b>Administrative expenses</b>			
Wages and salaries.....	135,900		
Other admin. expenses .....	51,700		
Depr. exp. (30% X \$65,000).....	<u>19,500</u>	<u>207,100</u>	<u>385,000</u>
Income from operations.....			99,000
 <b><u>Other Revenues and Gains</u></b>			
Rental revenue .....			<u>29,000</u>
			128,000
 <b><u>Other Expenses and Losses</u></b>			
Interest expense .....			<u>18,000</u>
Income before income tax.....			110,000
Income tax .....			<u>37,400</u>
Net income .....			<u>\$ 72,600</u>
 <b>Earnings per share (\$72,600 ÷ 20,000).....</b>			
			<u><u>\$3.63</u></u>



# SOLUTIONS TO PROBLEMS

## PROBLEM 4-1

**American Horse Company**  
**Income Statement**  
**For the Year Ended December 31, 2007**

<b>Sales .....</b>		<b>\$25,000,000</b>
<b>Cost of goods sold .....</b>		<b><u>17,000,000</u></b>
<b>Gross profit .....</b>		<b>8,000,000</b>
<b>Selling and administrative expenses .....</b>		<b><u>4,700,000</u></b>
<b>Income from operations.....</b>		<b>3,300,000</b>
<b>Other revenues and gains</b>		
<b>Interest revenue .....</b>	<b>\$ 70,000</b>	
<b>Gain on the sale of investments .....</b>	<b><u>110,000</u></b>	<b>180,000</b>
<b>Other expenses and losses</b>		
<b>Write-off of goodwill .....</b>		<b><u>820,000</u></b>
<b>Income from continuing operations before     income tax.....</b>		<b>2,660,000</b>
<b>Income tax .....</b>		<b><u>905,000</u></b>
<b>Income from continuing operations .....</b>		<b>1,755,000</b>
<b>Discontinued operations</b>		
<b>Loss on operations, net of tax .....</b>	<b>90,000</b>	
<b>Loss on disposal, net of tax.....</b>	<b><u>440,000</u></b>	<b><u>530,000</u></b>
<b>Income before extraordinary item .....</b>		<b>1,225,000</b>
<b>Extraordinary item—loss from flood damage,     net of tax.....</b>		<b><u>390,000</u></b>
<b>Net income .....</b>		<b><u>\$ 835,000</u></b>

**PROBLEM 4-1 (Continued)**

**Earnings per share:**

Income from continuing operations .....		<b>\$ 5.62<sup>a</sup></b>
<b>Discontinued operations</b>		
Loss on operations, net of tax .....	<b>\$( .30)</b>	
Loss on disposal, net of tax .....	<b><u>(1.47)</u></b>	<b><u>(1.77)</u></b>
Income before extraordinary item .....		<b>3.85<sup>b</sup></b>
Extraordinary loss, net of tax .....		<b><u>(1.30)</u></b>
Net income .....		<b><u>\$ 2.55<sup>c</sup></u></b>

**American Horse Company  
Retained Earnings Statement  
For the Year Ended December 31, 2007**

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Retained earnings, January 1 .....		<b>980,000</b>
Add: Net income .....		<b><u>835,000</u></b>
		<b>1,815,000</b>
<b>Less: Dividends</b>		
Preferred stock .....	<b>\$ 70,000</b>	
Common stock .....	<b><u>250,000</u></b>	<b><u>320,000</u></b>
Retained earnings, December 31 .....		<b><u>\$ 1,495,000</u></b>

$$^a \frac{\$1,755,000 - \$70,000}{300,000 \text{ shares}} = \$5.62$$

$$^b \frac{\$1,225,000 - \$70,000}{300,000 \text{ shares}} = \$3.85$$

$$^c \frac{\$835,000 - \$70,000}{300,000 \text{ shares}} = \$2.55$$