

Class 3 – Chapter 3- Statement of earnings

1. Discuss 3 important concepts/principles (from conceptual framework) specifically related to Net income statement.
2. **CIS** (can be 1 one or 2 separate statements (Statement of Earnings or P and L + OCIS)
(is consolidated = parent + subsidiaries)

Example 1. Classified by function (i.e. multi-step + different possibilities see A5- and other real F/S)
(Note: Result can mean: income or earnings or profit or loss)

Revenues (*net of returns and other allowances*)

- **Cost of sales** (*change in inventory + purchases*)

Gross margin

- **Operating expenses** (*total or separately = marketing, distribution, admin except int and taxes,*
(*and note to mention depreciation, amortization and employee benefits*)

Result from recurring operations or Recurring Operating result (*optional*)

+/- **Other revenues or expenses** (*ex: gain or loss on sale of NCT asset or exceptional items*)

Result before finance costs (*optional*)(**EBIT**)

+/- **financial income/expense** (*mandatory*)

Result before taxes from continued operations (*mandatory if applicable*)(**EBT**)

+/- **taxes** (*must show separately*)

Net result from continued operations (*i.e. excluding this year's result from operations that will be discontinued*)

+/- **Result from discontinued operations net of taxes** (*mandatory if applicable*)

Net Result (*mandatory*)

Attributable to Non-controlling Interest (*if subs are owned at less than 100%*) (*mandatory*)

Attributable to Parent (*mandatory*)

+/- **OCI items** (*ex: adjustments to FV of NCT assets*)(*mandatory*)

CI (*mandatory*)

Attributable to Non-controlling Interest (*if subs are owned at less than 100%*)

Attributable to Parent

EPS (*mandatory*) (*basic and diluted on NRCO and NR attributable to ordinary shareholders of the parent*)

Example 2 . Classified by nature (less common)

Revenue (*mandatory*)

+ **Other income** (*interest income: must be reported separately*)

Total revenue

+/- **Changes in inventories** (*shown separately or in note*)

- **Inventory purchases** (*shown separately or in note*)

- **Employee benefits expense** (*shown separately or in note*)

- **Depreciation and amortisation expense** (*shown separately or in note*)

+/- **Other expenses** (*interest exp must be reported separately*)

Total expenses

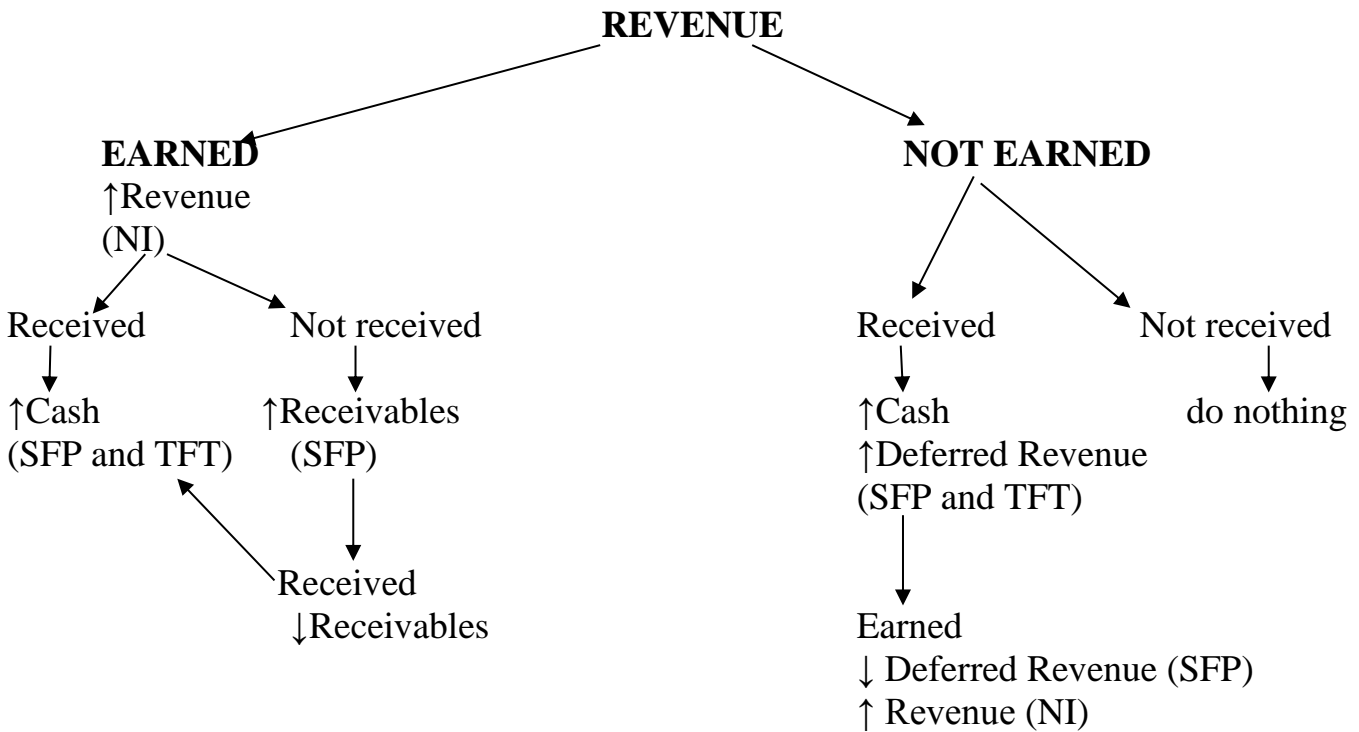
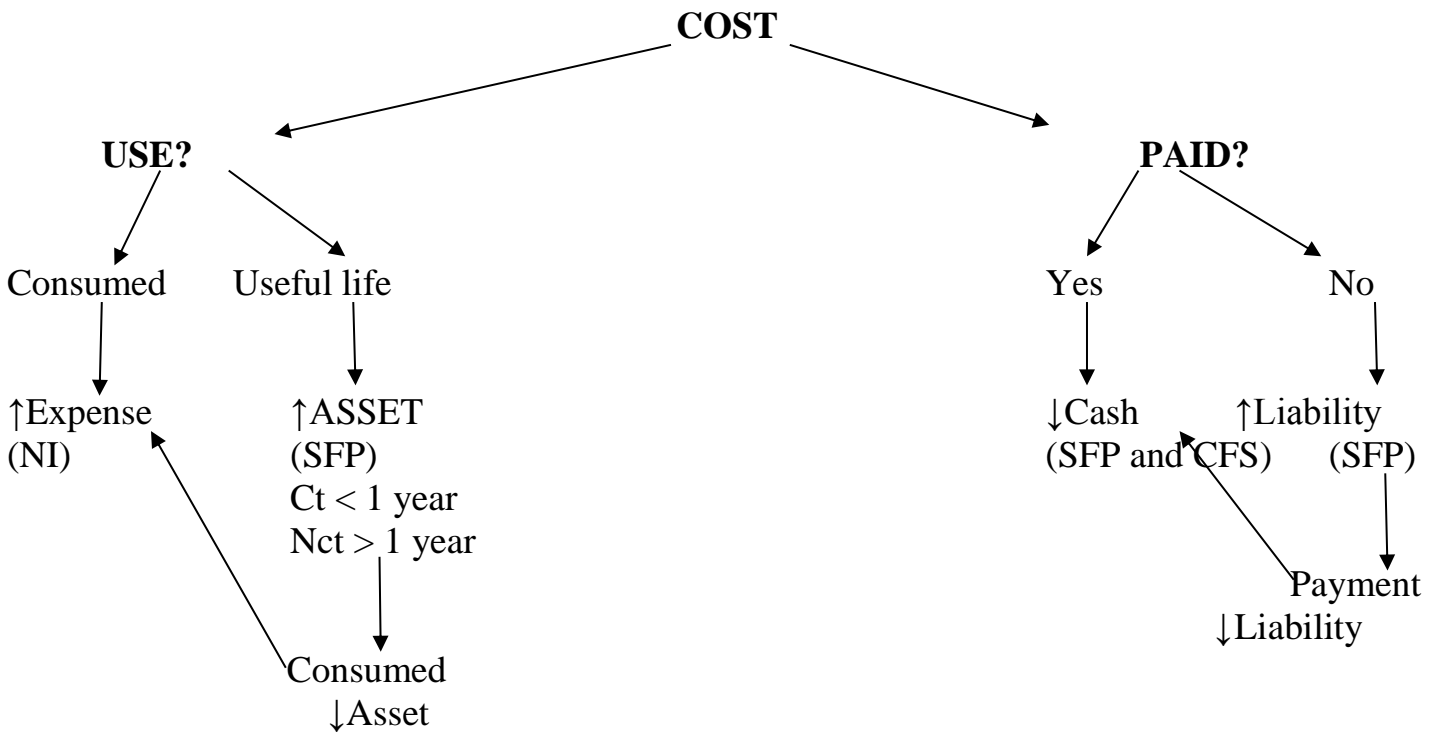
Result of continuing operations before tax

+/- **Taxes** (*must show separately*)

Net result from continued operations (*mandatory if applicable*)... *and the rest is the same as above*

ROA = $\frac{\text{Net Income} + \text{Int exp (net of taxes)}}{\text{Average total assets}}$ = not the same as EBIT = *Pure Income without financing strategy impact*

SUMMARY of ACCRUAL ACCOUNTING (and Matching and Revenue principle)



P3-5

(Amounts in millions)

Record JE

Req. 1 and 2 – General Ledger (T accounts)

ASSETS:

<i>Cash</i>	<i>Trade Receivables</i>	<i>Inventories</i>
635	1,503	551
<i>Prepayments</i>	<i>Property and Equipment, net</i>	<i>Other Non-current Assets</i>
16	10,759	1,126
<i>Patents</i>		
(j) 8		

LIABILITIES:

<i>Trade Payables</i>	<i>Income Tax Payable</i>
1,822	300

<i>Long-term Borrowings</i>	
	2,229

<i>Deferred Income Taxes</i>	
	2,518

SHAREHOLDERS' EQUITY:

<i>Share Capital</i>	
	3,455

<i>Retained Earnings</i>	
	4,266

REVENUES AND EXPENSES:

<i>Sales Revenue</i>	

<i>Cost of Sales</i>	

<i>Wages Expense</i>	

<i>Utilities Expense</i>	

<i>Interest Expense</i>	

Req. 3

Transaction	Effect on Net Earnings	Effect on Cash
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<i>a.</i>		
<i>b.</i>		
<i>c.</i>		
<i>d.</i>		
<i>e.</i>		
<i>f.</i>		
<i>g.</i>		
<i>h.</i>		
<i>i.</i>		
<i>j.</i>		

Req. 4

MODERN SPORTSWEAR INC.
Statement of Earnings
For the Month Ended January 31, 2015
(in millions of dollars)

Net earnings	\$ <u>98</u>
Income taxes have been ignored.	

MODERN SPORTSWEAR INC.
Statement of Financial Position
As at January 31, 2015
(in millions of dollars)

Assets

Total assets	<u><u>\$14,901</u></u>

Liabilities

Total liabilities	_____

Shareholders' Equity

Total liabilities and shareholders' equity	<u><u>\$14,901</u></u>