

## The Complete Income Statement

### Pratt, Financial Accounting 7e, Chapter 13

#### Multi-Step Income Statements

- The preferred method is to prepare an income statement using a multi-step approach
- A multi-step income statement includes the following items and subtotals

Net Sales	\$XXX
Cost of Goods Sold	<u>XXX</u>
Gross Profit	\$XXX
Operating Expenses	<u>XXX</u>
Income from Operations	\$XXX
Other Revenue and Expenses	<u>XXX</u>
Income before Income Tax	\$XXX
Income Tax Expense	<u>XXX</u>
Net Income	<u>\$XXX</u>

- Net Sales

Gross Sales	\$XXX
Less:	
Sales Discounts	XXX
Sales Returns and Allowances	<u>XXX</u>
Net Sales	<u>\$XXX</u>

- Operating Expenses are also known as Selling General and Administrative Expenses (SG&A)
- Other Revenue and Expenses includes Interest Revenue and Interest Expense plus other non-operating revenues and expenses

Earnings per Share (EPS) is required to be reported as a part of the income statement and if either discontinued operations and/or extraordinary items are present their effect on EPS should be reported

$$\text{EPS} = \frac{\text{Net Income} - \text{Preferred Dividends (if any)}}{\text{Weighted Average Number of Common Shares Outstanding}}$$

If the company has issued securities that include options to receive common stock – such as convertible bonds, convertible preferred stock, and stock options - then a second amount called diluted earnings per share will be reported.

**SEAGATE TECHNOLOGY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Fiscal Year Ended	Fiscal Year Ended	Fiscal Year Ended
	June 29, 2007	June 30, 2006	July 1, 2005
	(In millions, except per share data)		
Revenue	\$ 11,360	\$ 9,206	\$ 7,553
Cost of revenue	9,175	7,069	5,880
Product development	904	805	645
Marketing and administrative	589	447	306
Amortization of intangibles	49	7	—
Restructuring and other	29	4	—
Total operating expenses	<u>10,746</u>	<u>8,332</u>	<u>6,831</u>
Income from operations	614	874	722
Interest income	73	69	36
Interest expense	(141)	(41)	(48)
Other, net	15	22	22
Other income (expense), net	<u>(53)</u>	<u>50</u>	<u>10</u>
Income before income taxes	561	924	732
Provision for (benefit from) income taxes	<u>(352)</u>	<u>84</u>	<u>25</u>
Net income	<u>\$ 913</u>	<u>\$ 840</u>	<u>\$ 707</u>
Net income per share:			
Basic	\$ 1.64	\$ 1.70	\$ 1.51
Diluted	1.56	1.60	1.41
Number of shares used in per share calculations:			
Basic	558	495	468
Diluted	587	524	502
Cash dividends declared per share	\$ 0.38	\$ 0.32	\$ 0.26

See notes to consolidated financial statements.

## Irregular Items

In the U.S. we follow a modified all inclusive approach to reporting income. Two items receive special treatment – they are separately reported, net of tax, at the bottom of the income statement:

- Discontinued operations – includes both results and gain/loss on disposal
- Extraordinary items – includes material items that are both unusual in nature and infrequent in occurrence
- Net of Tax Amount = Pre-Tax Amount X (1 – Tax Rate)

Unusual Gains and Losses – Items that do not qualify as extraordinary are not permitted to be reported net of tax. The company can separately report them if they are material.

Changes in Accounting Principle – These are handled retrospectively. All statements presented are presented using the new principle. The cumulative effect for prior periods not presented is made as an adjustment to the beginning balance of retained earnings of the earliest year presented.

Changes in Estimates - Reported prospectively and are not considered to be extraordinary items or errors.

Corrections of Errors – treated as prior period adjustments with adjustments to retained earnings and, if necessary, restatement of prior statements.

	For years ended December 31		
	2007	2006	2005
<i>(In millions, except per share amounts)</i>			
<b>NET SALES</b>	\$ 8,563.1	\$ 8,521.0	\$ 6,891.0
Cost of products sold	4,564.6	4,476.8	3,731.0
Excise taxes on spirits	510.9	505.6	320.3
Advertising, selling, general and administrative expenses	2,035.8	2,026.6	1,655.5
Amortization of intangibles	47.6	42.9	32.9
Restructuring charges	73.5	21.2	—
Gain on the sale of The Dalmore Scotch assets	(45.6)	—	—
<b>OPERATING INCOME</b>	1,376.3	1,447.9	1,151.3
Interest expense	293.6	308.8	153.6
Other (income) expense, net	(37.5)	(40.2)	78.4
Income from continuing operations before income taxes and minority interests	1,120.2	1,179.3	919.3
Income taxes	346.3	299.3	321.8
Minority interests	24.4	67.9	20.0
Income from continuing operations	\$ 749.5	\$ 812.1	\$ 577.5
<b>Income from discontinued operations, net of tax</b>	<b>13.1</b>	<b>18.0</b>	<b>43.6</b>
<b>NET INCOME</b>	\$ 762.6	\$ 830.1	\$ 621.1
<b>EARNINGS PER COMMON SHARE</b>			
Basic			
Continuing operations	\$ 4.89	\$ 5.44	\$ 3.96
Discontinued operations	0.09	0.12	0.30
Net earnings	\$ 4.98	\$ 5.56	\$ 4.26
Diluted			
Continuing operations	\$ 4.79	\$ 5.31	\$ 3.84
Discontinued operations	0.08	0.11	0.29
Net earnings	\$ 4.87	\$ 5.42	\$ 4.13

### 3. Discontinued Operations

In the third quarter of 2007, we sold the William Hill and Canyon Road wine brands and related assets to E. & J. Gallo Winery. In December 2007, we sold the remaining U.S. wine assets to Constellation Brands, Inc. (Constellation Brands) for \$884.5 million, subject to purchase price adjustments for cash and working capital levels. The sale to Constellation Brands, Inc. resulted in an after tax gain of \$5.2 million.

On August 16, 2005, the Company completed the spin-off of the Office business segment, ACCO World Corporation ("ACCO"), to the Company's shareholders, and ACCO merged with General Binding Corporation, creating ACCO Brands Corporation, a leading supplier of branded office products.

The statements of income for the twelve months ended December 31, 2007, 2006 and 2005 were adjusted to reflect our U.S. Wine and Office businesses as discontinued operations. The results of these discontinued operations include expenses that were paid by Fortune Brands on behalf of ACCO based on actual direct costs incurred. Interest expense associated with the outstanding debt of Fortune Brands was allocated to each of the discontinued operations assuming the discontinued operations had a debt to equity ratio consistent with the debt to equity ratio of Fortune Brands in accordance with the provisions of EITF 87-24, "Allocation of Interest to Discontinued Operations."

The following table summarizes the results of the discontinued operations for the years ended December 31, 2007, 2006, and 2005.

	For the Year ended December 31,		
	2007	2006	2005
<i>(In millions)</i>			
Net sales	\$ 239.2	\$ 248.0	\$ 934.0
Income from discontinued operations before income taxes	\$ 84.7	\$ 29.8	\$ 72.6
Income taxes	71.6	11.8	29.0
Income from discontinued operations, net of income taxes <sup>(a)</sup>	\$ 13.1	\$ 18.0	\$ 43.6

<sup>(a)</sup> Income from discontinued operations includes an after tax gain on the sale of the U.S. Wine assets to Constellation Brands in 2007 of \$5.2 million.

## Comprehensive Income

- Includes all non-owner changes in net assets (owner's equity).
- Net income plus/minus non-owner changes that are not included in net income.
- Alternative methods for reporting:
  - Second Income Statement
  - Combined Income Statement
  - Statement of Stockholders' Equity (most common)

Accumulated Other Comprehensive Income is included as an element in the Stockholders' Equity section of the Balance Sheet