**CHAPTER 4**

P.1. The following information for Decher Automotives covers the year ended 2008:

Administrative expense $ 62,000

Dividend income 10,000

Income taxes 100,000

Interest expense 20,000

Merchandise inventory, 1/1 650,000

Merchandise inventory, 12/31 440,000

Flood loss (net of tax) 30,000

Purchases 460,000

Sales 1,000,000

Selling expenses 43,000

**Required**

a. Prepare a multiple-step income statement.

b. Assuming that 100,000 shares of common stock are outstanding, calculate the

earnings per share before extraordinary items and the net earnings per share.

c. Prepare a single-step income statement.

P. 2. The following information for Lesky Corporation covers the year ended December

31, 2008:

LESKY CORPORATION

Income Statement

For the Year Ended December 31, 2008

Revenue:

Revenues from sales $362,000

Rental income 1,000

Interest 2,400

Total revenue 365,400

Expenses:

Cost of products sold $242,000

Selling expenses 47,000

Administrative and general expenses 11,400

Interest expense 2,200

Federal and state income taxes 20,300

Total expenses 322,900

Net income $ 42,500

**Required** : Change this statement to a multiple-step format.

P 3. The accounts of Consolidated Can contain the following amounts at December 31, 2008:

Cost of products sold $410,000

Dividends 3,000

Extraordinary gain (net of tax) 1,000

Income taxes 9,300

Interest expense 8,700

Other income 1,600

Retained earnings, 1/1 270,000

Sales 480,000

Selling and administrative expense 42,000

**Required**: Prepare a multiple-step income statement combined with a reconciliation of

retained earnings for the year ended December 31, 2008.

P 4.The following items are from Taperline Corporation on December 31, 2008. Assume

a flat 40% corporate tax rate on all items, including the casualty loss.

Sales $670,000

Rental income 3,600

Gain on the sale of fixed assets 3,000

General and administrative expenses 110,000

Selling expenses 97,000

Interest expense 1,900

Depreciation for the period 10,000

Extraordinary item (casualty loss—pretax) 30,000

Cost of sales 300,000

Common stock (30,000 shares outstanding) 150,000

**Required**

a. Prepare a single-step income statement for the year ended December 31, 2008. Include

earnings per share for earnings before extraordinary items and net income.

b. Prepare a multiple-step income statement. Include earnings per share for earnings

before extraordinary items and net income.

P 4-5. The income statement of Rawl Company for the year ended December 31, 2008 shows:

Net sales $360,000

Cost of sales 190,000

Gross profit 170,000

Selling, general, and administrative expense 80,000

Income before unusual write-offs 90,000

Provision for unusual write-offs 50,000

Earnings from operations before income taxes 40,000

Income taxes 20,000

Net earnings from operations before extraordinary charge 20,000

Extraordinary charge, net of tax of $10,000 (50,000)

Net earnings (loss) $(30,000)

**Required** Compute the net earnings remaining after removing unusual write-offs

and the extraordinary charge. Remove these items net of tax. Estimate the

tax rate for unusual write-offs based on the taxes on operating income.

P6. At the end of 2008, vandals destroyed your financial records. Fortunately, the controller had kept certain statistical data related to the income statement, as follows:

a. Cost of goods sold was $2,000,000.

b. Administrative expenses were 20% of the cost of sales but only 10% of sales.

c. Selling expenses were 150% of administrative expenses.

d. Bonds payable were $1,000,000, with an average interest rate of 11%.

e. The tax rate was 48%.

f. 50,000 shares of common stock were outstanding for the entire year.

**Required** From the information given, reconstruct a multiple-step income statement for the year. Include earnings per share.