

8.2 How Accountants Use Income Statements

Accountants often compare how a company does from year to year. When comparing two years, accountants will calculate:

- 1.
- 2.

Trend analysis is a technique used that shows financial data over a number of consecutive periods. If the figures are changed to percentages and/or graphs then they are easy to interpret. To calculate the percentage (always relative to the first year):

$$\frac{\text{CurrentYear's Sales}}{\text{Year 1 Sales}} \times 100 = \text{Percent Sales}$$

A percentage of over 100% means an increase in sales compared to Year 1 whereas a percentage of less than 100% means a decrease in sales compared to Year 1.

Example: If the following data are sales for a company, calculate the percent sales for each year.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Sales	\$55 000	\$70 000	\$62 500	\$45 500	\$85 650	\$105 900
Sales %						

Common-size income statements compare two different companies within the same document. Dollar figures may be shown but are not a good method of comparison. On page 265 it shows an example. Instead of using dollar figures, the numbers are converted into percentages so that the companies may be accurately compared. Expenses are shown as a percentage of total sales (revenues) by:

$$\frac{\text{Expense}}{\text{Total Sales}} \times 100 = \text{Percent of Sales}$$

The example in the textbook on page 265 shows how the common-size income statement is converted into percentages.

Example: Calculate the following expenses as a percentage of total sales when total sales is \$140 000.

	Automotive Expense	Bank Interest Expense	Insurance Expense	Rent Expense	Wages Expense	Other Expenses
Dollar Amount	\$26 000	\$12 500	\$5000	\$27 500	\$50 000	\$1000
Percent of Sales						

What is the net income or net loss? Express this number as a percent of total sales.

Homework: p 267 #2 and p 268 #5A

Exercise 5, p. 268

A.

Income Statements				
Year End December 31, 20-				
	Company A		Company B	
Revenue				
Sales	<u>\$197 000</u>	_____ %	<u>\$421 000</u>	_____ %
Expenses				
Automotive Expense	\$ 40 200	_____ %	\$ 80 270	_____ %
Bank Interest Expense	3 500	_____ %	27 050	_____ %
Rent Expense	12 000	_____ %	30 000	_____ %
Wages Expense	86 750	_____ %	214 860	_____ %
Other Expenses	<u>1 800</u>	_____ %	<u>10 900</u>	_____ %
Total Expenses	<u>\$144 250</u>	_____ %	<u>\$363 080</u>	_____ %
Net Income	<u>\$ 52 750</u>	_____ %	<u>\$ 57 920</u>	_____ %

Exercise 2, p. 267

A.

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales	\$20 700	\$22 356	\$23 184	\$23 805	\$24 219
Per cent of Year 1	_____ %	_____ %	_____ %	_____ %	_____ %
Increase in Percentage		_____	_____	_____	_____

B.
