

ACC 300 • BEFORE CLASS

Before-class trivia

What is the deepest lake in the world?



ACC 300 • SESSION 6

The income statement

How did the company earn its net income?



Prepare a multiple-step income statement

Learning objective 2.1a

APPLY ●●●○○○

Prepare a multiple-step income statement.

In this class, you will place supplied amounts in the statement and calculate its subtotals through net income.

💡 Analyze operating performance

Learning objective 2.1b

ANALYZE ●●●●○○

Analyze operating performance using income-statement subtotals.

You will compare reported results, calculate margins, and decide which conclusions need other evidence.

Granite Harbor Manufacturing

Fictional cabinet manufacturer

GRANITE HARBOR

MANUFACTURING

BUSINESS

Manufactures and sells cabinets

REPORTING PERIOD

Year ended December 31, 2025

UNITS

US dollars

Prepare Granite Harbor's income statement, then use its subtotals to explain the year's results.

BUILD THE STATEMENT

Build the income statement

From revenue through operating income.





Read the statement in layers

Each subtotal preserves a different part of the company's performance.

Example Company Income Statement

Year Ended December 31, 2025 · US Dollars

Net sales	100,000
Cost of goods sold	(60,000)
Gross profit	40,000
Operating expenses	
Selling expenses	(10,000)
Administrative expenses	(8,000)
Operating income	22,000
Other income and expense	
Interest expense	(2,000)
Income before income taxes	20,000
Income tax expense	(4,000)
Income from continuing operations	16,000
Discontinued operations, net of tax	—
Net income	16,000

WHAT EACH SUBTOTAL MEASURES

GROSS PROFIT

Sales remaining to cover the company's other costs.

OPERATING INCOME

Profit from the company's central operations.

PRETAX INCOME

The combined result before income tax.

CONTINUING INCOME

After-tax earnings from the business that continues.

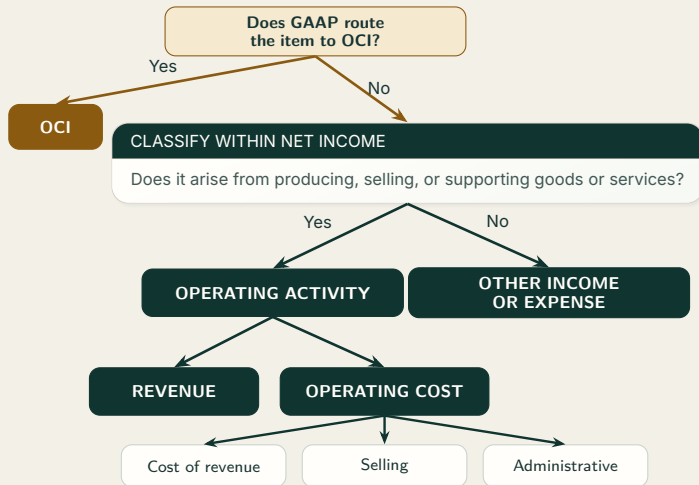
NET INCOME

The period's total reported earnings.



Determine the reporting route

For manufacturers, retailers, and service companies, apply the OCI rule first.



CHECK SEPARATE PRESENTATION

Unusual or infrequent item
Component disposal
Asset held for sale



Separate central operations from other items

The activity or event determines whether the result enters operating income.

OPERATING ACTIVITY

Producing, selling, or supporting what the company provides to customers.

Examples: cabinet sales, production, outbound freight, and company management.

FIRST AFFECTS OPERATING INCOME

OTHER INCOME OR EXPENSE

Activities outside the company's central operations.

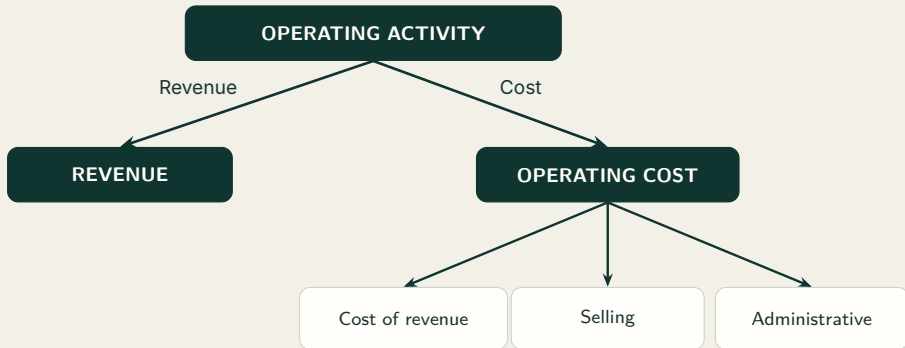
Examples: interest and gains or losses on sales of equipment.

FIRST AFFECTS PRETAX INCOME



Classify an operating item

Revenue comes from customer activities. Classify a cost by the function that used the resource.





Classify operating costs by function

Ask which work used the resource. Reporting policy resolves reasonable allocation choices.

COST OF REVENUE

Produce goods, acquire merchandise, or perform services reported as revenue.

Examples: materials, labor, and allocated production overhead; merchandise held for resale; labor used to provide a billed service.

SELLING

Market, sell, distribute, or deliver a product after it is ready for sale.

Examples: advertising, sales commissions, showroom costs, and delivery to customers.

ADMINISTRATIVE

Manage the company or support the organization across functions.

Examples: executive management, accounting, human resources, legal work, and general offices.



Classify every Granite Harbor cost

Named costs reconcile to the reported totals · Year ended December 31, 2025 · US dollars

COST OR LOSS	AMOUNT	REPORTING LOCATION
Assembly labor for cabinets sold	6,500,000	Cost of goods sold
Remaining cost of goods sold	63,500,000	Cost of goods sold
Total cost of goods sold	70,000,000	Gross-profit calculation
Outbound freight to customers	4,200,000	Selling expense
Remaining selling costs	9,800,000	Selling expense
Total selling expenses	14,000,000	Operating-income calculation
Chief executive salary	500,000	Administrative expense
Remaining administrative costs	7,500,000	Administrative expense
Total administrative expenses	8,000,000	Operating-income calculation
Interest expense	1,000,000	Other expense
Flood loss	2,000,000	Other expense
Income tax expense	5,000,000	After pretax income
Discontinued-operation loss	3,000,000	Below continuing income; net of tax



Granite Harbor's gross profit

Gross profit shows what remains from net sales after deducting cost of goods sold.

INCOME STATEMENT EXCERPT

Net sales	118,000,000
Cost of goods sold	(70,000,000)

GROSS PROFIT

48,000,000

WHY THIS SUBTOTAL MATTERS

It shows whether sales exceed cost of goods sold by enough to absorb the costs of selling and managing the company.

Granite Harbor reports 48,000,000 after deducting the cost of the cabinets sold.

Granite Harbor: operating income

Operating income reports the result of central operations before other income or expense and income tax.

INCOME STATEMENT EXCERPT

Gross profit	48,000,000
Selling expenses	(14,000,000)
Administrative expenses	(8,000,000)

OPERATING INCOME

26,000,000

WHY THIS SUBTOTAL MATTERS

It combines gross profit with the costs of selling and managing the company.

Granite Harbor reports 26,000,000 from central operations before its other results and income tax.

? Where does the service cost belong?

? iClicker · Question 1 of 5

A professional service firm's employees perform work billed to clients. Where would their compensation ordinarily appear?

A

Cost of revenue

B

Selling expense

C

Administrative expense

D

Other expense



Client work is a direct cost

Where would compensation for work billed to clients ordinarily appear?



iClicker · Answer 1 of 5

A

Cost of revenue

The employees perform the service reported as revenue, so their compensation is a direct cost of that service.

B

Selling expense. This supports obtaining or fulfilling sales rather than performing the billed service.

C

Administrative expense. This supports management or the organization as a whole.

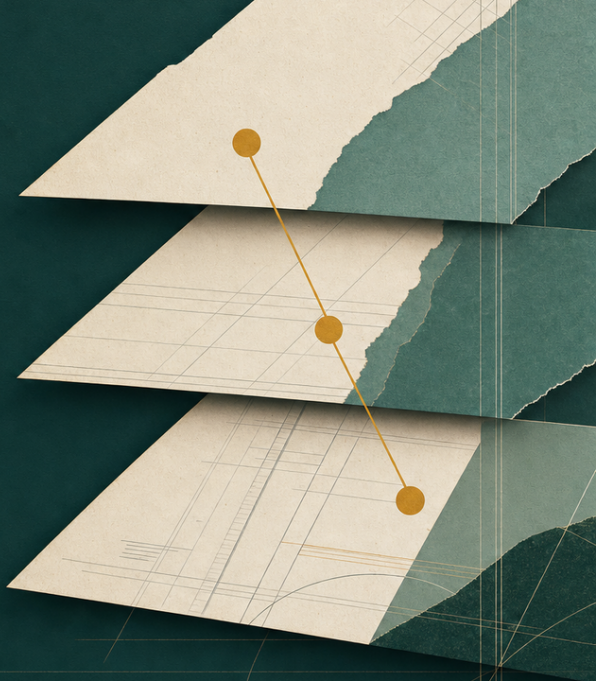
D

Other expense. This is outside the firm's central operating activities.

COMPLETE THE STATEMENT

Other income and net income

Place gains, losses, interest, taxes, and discontinued results.



💡 A gain or loss on an asset sale

The sale price is compared with the asset's carrying amount.

CALCULATE THE RESULT

$$\begin{array}{r} \text{Sale proceeds} \\ - \text{Carrying amount} \\ \hline = \text{Gain or loss} \end{array}$$

- Carrying amount is the amount left after depreciation and other recorded reductions.
- Proceeds above carrying amount produce a gain; proceeds below it produce a loss.
- The difference—not the sale price—is the gain or loss.

GRANITE HARBOR'S VAN

The supplied gain is 2,000,000.

Selling an old delivery van is outside cabinet sales, so the gain does not enter gross profit.



Other items follow operating income

They affect income before income taxes without changing gross profit or operating income.

INCOME STATEMENT PLACEMENT

Operating income	subtotal above
Interest income or expense	separately named or grouped
Gain or loss on an asset disposal	separately named or grouped
Income before income taxes	includes these results

WHY THESE ITEMS ARE HERE

- They arise outside the activities included in operating income.
- Labels and grouping vary, but shortening the statement does not change classification.

WHAT PRODUCED THEM

- Lending or investments produce interest income; borrowing produces interest expense.
- Selling an asset can produce a disposal gain or loss.



A flood damaged the cabinet plant

Granite Harbor · June 2025

WHAT HAPPENED

A river flood reached Granite Harbor's Ashford cabinet plant. The plant is outside a designated floodplain, and no flooding had been recorded there in more than 50 years.

The flood damaged the continuing cabinet operation, not the cabinet-hardware line that was sold.

WHERE THE LOSS GOES

Granite Harbor recognized a material 2,000,000 loss for inventory and equipment written off and cleanup costs. No insurance recovery is included.

The unusual and infrequent loss remains in continuing operations. Granite Harbor's policy places it in other expense, before income tax.

NEXT CLASS

We will compare this event with a qualifying component disposal and explain why only the component's result enters discontinued operations.

Granite Harbor: pretax income

Pretax income combines operating income with other income and expense before income tax.

INCOME STATEMENT EXCERPT

Operating income	26,000,000
Gain on sale of van	2,000,000
Flood loss	(2,000,000)
Interest expense	(1,000,000)

INCOME BEFORE INCOME TAXES

25,000,000

WHY THIS SUBTOTAL MATTERS

It combines all continuing results recognized before income tax.

The supplied flood loss is other expense in this case.



Income tax expense is a reported amount

Pretax accounting income alone does not provide the amount.

WHERE TAX ENTERS

PLACEMENT

Income tax expense follows pretax income.

MEASUREMENT

Pretax accounting income alone does not provide income tax expense.

COURSE BOUNDARY

We supply the financial-statement income tax expense or benefit.

READ THE ACTUAL STATEMENT

POSSIBLE SUBTOTAL

Some companies show an additional subtotal before interest and tax.

NOT UNIVERSAL

That subtotal is not required in every multiple-step statement.

COMPARISON

Compare the lines and units the company actually reports.

Granite Harbor: continuing income

Continuing income is the after-tax result before a discontinued operation.

INCOME STATEMENT EXCERPT

Income before income taxes	25,000,000
Income tax expense	(5,000,000)

INCOME FROM CONTINUING OPERATIONS

20,000,000

WHY THIS SUBTOTAL MATTERS

It separates the after-tax result of continuing activities from a discontinued operation.

Granite Harbor's supplied income tax expense is 5,000,000.



A qualifying discontinued operation

Its result is separate from continuing operations.

WHEN THE LINE APPEARS

- A qualifying disposal is reported below income from continuing operations.
- The result is shown net of its related income tax effect.
- Without a qualifying disposal, no discontinued-operation line appears.

BOUNDARY FOR THIS CLASS

- The controller supplies that Granite Harbor's cabinet-hardware disposal qualifies.
- Chapter 7 teaches how to make that determination.



Granite Harbor's net income

Granite Harbor Manufacturing · Year ended December 31, 2025 · US dollars

INCOME STATEMENT EXCERPT

Income from continuing operations	20,000,000
Discontinued-operation loss, net of tax	(3,000,000)

NET INCOME

17,000,000

WHY THIS TOTAL MATTERS

Net income includes both continuing income and any separately reported discontinued result.

Granite Harbor's supplied 3,000,000 discontinued loss is already after tax.



Classify four recognized costs

Granite Harbor · 2025 · US dollars

LOAN INTEREST

1,000,000

Name its location and first affected subtotal.

DELIVERY FREIGHT

4,200,000 · Finished cabinets delivered to customers

Name its location and first affected subtotal.

ASSEMBLY LABOR

6,500,000 · Cabinets sold

Name its location and first affected subtotal.

CHIEF EXECUTIVE SALARY

500,000

Name its location and first affected subtotal.

These amounts are components of the supplied statement totals.

✓ Direct and operating costs differ

Granite Harbor · 2025 · US dollars

LOAN INTEREST

- **Location:** Other expense below operating income.
- **First impact:** Pretax income.
- Borrowing produced the cost.

DELIVERY FREIGHT

- **Location:** Selling expense under the case policy.
- **First impact:** Operating income.
- Delivery follows production.

ASSEMBLY LABOR

- **Location:** Cost of goods sold.
- **First impact:** Gross profit.
- The labor produced cabinets sold.

CHIEF EXECUTIVE SALARY

- **Location:** Administrative expense.
- **First impact:** Operating income.
- Supports company-wide management.

⚠ ATTENTION

These costs are already included in Granite Harbor's supplied totals. Do not add them again.



Place the remaining results

Granite Harbor · 2025 · US dollars

RESULT	SUPPLIED FACTS	YOUR DECISION
Cabinet-hardware disposal	3,000,000 loss after tax. The controller determined that the disposal qualifies for discontinued-operation reporting.	Statement location and first affected subtotal
Flood loss	Material loss at the continuing cabinet plant. Company policy places it in other expense.	Statement location and first affected subtotal
Delivery-van sale	2,000,000 gain from selling an old delivery van.	Statement location and first affected subtotal



CLASSIFY EACH RESULT

For each row, identify where the result appears and the first subtotal it changes.

✓ These results enter different sections

Granite Harbor · 2025 · US dollars

DELIVERY-VAN GAIN

- **Location:** Other income below operating income.
- **First impact:** Pretax income.
- Selling a used asset is not cabinet sales.

FLOOD LOSS

- **Location:** Continuing operations, in other expense under Granite Harbor's policy.
- **First impact:** Pretax income.
- Unusual does not mean discontinued.

CABINET-HARDWARE DISPOSAL

- **Location:** Below continuing income, net of tax.
- **First impact:** Net income.
- Supplied qualification requires separate presentation.



Granite Harbor's complete statement

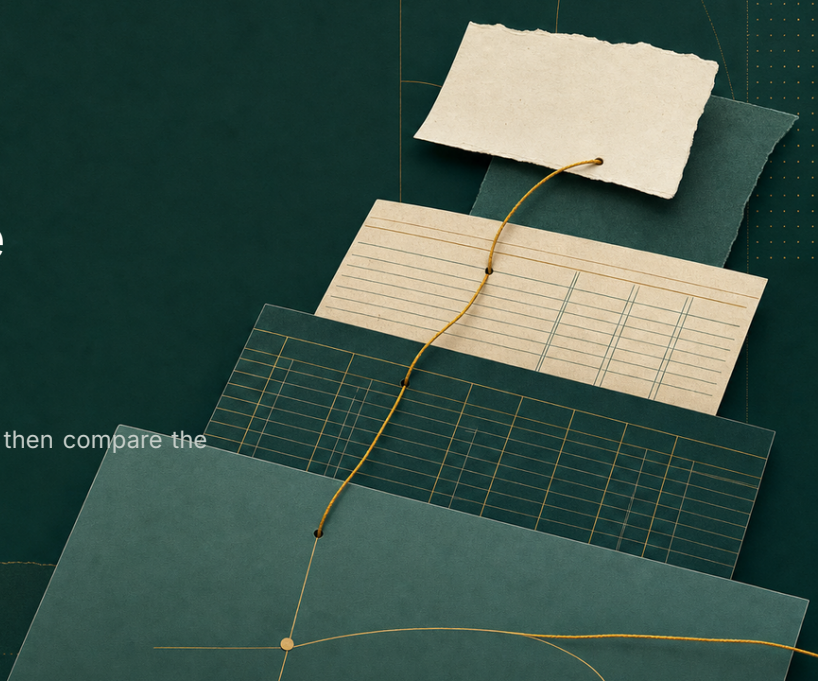
Granite Harbor Manufacturing · Year ended December 31, 2025 · US dollars

Net sales	118,000,000
Cost of goods sold	(70,000,000)
Gross profit	48,000,000
Selling expenses	(14,000,000)
Administrative expenses	(8,000,000)
Operating income	26,000,000
Gain on sale of van	2,000,000
Flood loss	(2,000,000)
Interest expense	(1,000,000)
Income before income taxes	25,000,000
Income tax expense	(5,000,000)
Income from continuing operations	20,000,000
Discontinued-operation loss, net of tax	(3,000,000)
Net income	17,000,000

WORK A SECOND YEAR

Prepare the prior-year statement

Use a new set of amounts, then compare the
two years.



? Which subtotals change?

? iClicker · Question 2 of 5

A building-sale loss belongs in other expense, but a draft includes it in cost of goods sold. What happens when the draft is corrected?

- ☐ A Gross profit and operating income rise; pretax income stays the same.
- ☐ B Only operating income rises.
- ☐ C Pretax income rises.
- ☐ D Gross profit falls.

✓ Moving the loss changes two subtotals

What changes when a building-sale loss moves from cost of goods sold to other expense?

✓ iClicker · Answer 2 of 5

A

Gross profit and operating income rise; pretax income stays the same.

Moving the same loss below operating income raises both earlier subtotals without changing total pretax income.

B

Only operating income rises. Gross profit also rises because cost of goods sold decreases.

C

Pretax income rises. Pretax income retains the same loss; only its location changes.

D

Gross profit falls. Removing the loss from cost of goods sold raises gross profit.

Prepare the prior-year statement

Granite Harbor Manufacturing · 2024 · US dollars

REVENUE AND OTHER ITEMS

Net sales	100,000,000
Gain on sale of land	2,000,000
Interest expense	2,000,000
Income tax expense	4,000,000

These amounts describe the continuing cabinet operation.

COSTS TO CLASSIFY

Cabinet materials and production labor	60,000,000
Advertising	4,000,000
Sales salaries	5,000,000
Delivery freight	3,000,000
Accounting and human-resources salaries	3,000,000
Executive and general-office costs	5,000,000

YOUR WORK

Classify each cost and prepare the 2024 statement through income from continuing operations.

Calculate the 2024 discontinued result

The cabinet-hardware line qualifies; Session 7 explains why.

HARDWARE-LINE RESULTS · 2024

Hardware sales	10,000,000
Cost of hardware sold	(6,000,000)
Selling and administrative expenses	(1,500,000)
Pretax income from the hardware line	2,500,000
Supplied income tax expense	(500,000)

YOUR WORK

1. Calculate the hardware line's 2024 income net of its supplied tax expense.
2. Place that result below 2024 income from continuing operations of 16,000,000.
3. Calculate 2024 net income.

✓ Build 2024 through gross profit

Granite Harbor Manufacturing · Year ended December 31, 2024 · US dollars

COST OF GOODS SOLD

Cabinet materials and
production labor

60,000,000

These resources produce the
cabinets reported as sales, so they
enter cost of goods sold.

GRANITE HARBOR MANUFACTURING Income Statement (partial)

Year Ended December 31, 2024 · US dollars

Net sales	100,000,000
Cost of goods sold	(60,000,000)
Gross profit	40,000,000

✓ Continue through operating income

Granite Harbor Manufacturing · Year ended December 31, 2024 · US dollars

CLASSIFY AND TOTAL THE EXPENSES

Selling expenses

Advertising	4,000,000
Sales salaries	5,000,000
Delivery freight	3,000,000
Selling total	12,000,000

Administrative expenses

Accounting and HR salaries	3,000,000
Executive and office costs	5,000,000
Administrative total	8,000,000

GRANITE HARBOR MANUFACTURING

Income Statement (partial)

Year Ended December 31, 2024 · US dollars

Net sales	100,000,000
Cost of goods sold	(60,000,000)
Gross profit	40,000,000
Selling expenses	(12,000,000)
Administrative expenses	(8,000,000)
Operating income	20,000,000

✓ Continue through pretax income

Granite Harbor Manufacturing · Year ended December 31, 2024 · US dollars

INCOME STATEMENT EXCERPT

Operating income	20,000,000
Gain on sale of land	2,000,000
Interest expense	(2,000,000)

INCOME BEFORE INCOME TAXES

20,000,000

WHY THESE ITEMS FOLLOW OPERATING INCOME

The land-sale gain and loan interest arise outside central cabinet operations. Both affect pretax income.

✓ Finish with the discontinued result

Granite Harbor Manufacturing · Year ended December 31, 2024 · US dollars

CONTINUING OPERATIONS

Income before income taxes	20,000,000
Income tax expense	(4,000,000)
Income from continuing operations	16,000,000

DISCONTINUED HARDWARE LINE

Hardware-line pretax income	2,500,000
Supplied income tax expense	(500,000)
Income from discontinued operations	2,000,000

NET INCOME

18,000,000



Granite Harbor's complete 2024 statement

See every classification and subtotal together.

GRANITE HARBOR MANUFACTURING

Income Statement

Year Ended December 31, 2024 · US dollars

Net sales	100,000,000
Cost of goods sold	(60,000,000)
Gross profit	40,000,000
Selling expenses	(12,000,000)
Administrative expenses	(8,000,000)
Operating income	20,000,000
Gain on sale of land	2,000,000
Interest expense	(2,000,000)
Income before income taxes	20,000,000
Income tax expense	(4,000,000)
Income from continuing operations	16,000,000
Income from discontinued operations, net of 500,000 tax expense	2,000,000
Net income	18,000,000



Compare Granite Harbor's two years

US dollars · Same company · Annual statements

	2024	2025	Change
Net sales	100,000,000	118,000,000	+18,000,000
Gross profit	40,000,000	48,000,000	+8,000,000
Operating income	20,000,000	26,000,000	+6,000,000
Income from continuing operations	16,000,000	20,000,000	+4,000,000
Discontinued-operation result, net of tax	2,000,000	(3,000,000)	(5,000,000)
Net income	18,000,000	17,000,000	(1,000,000)

WHAT THE COLUMNS ESTABLISH

The reported dollar amounts changed. The next three rates compare gross profit, operating income, and net income with sales from the same year. The statements do not identify the cause.

COMPARE THE YEARS

Compare profit margins

Calculate gross, operating, and net rates.





Gross profit rate

Compare gross profit with net sales from the same period.

CALCULATE THE RATE

$$\begin{array}{r} \text{Gross profit} \\ \div \text{Net sales} \\ \hline = \text{Gross profit rate} \end{array}$$

READ THE RESULT

A 40% rate means 40 cents of each sales dollar remains after cost of goods sold.

Compare companies only after checking what each includes in cost of revenue. The rate alone does not identify whether price, cost, volume, or mix caused a change.

A percentage gross profit rate is also called gross margin. Some statements use *gross margin* for the dollar subtotal, so check the units.

Granite Harbor's gross profit rate

The net sales and gross profit in each calculation cover the same year.

FORMULA

Gross profit rate = Gross profit ÷ Net sales

CALCULATE EACH YEAR

$$2024 \quad 40,000,000 \div 100,000,000 = 40.0\%$$

$$2025 \quad 48,000,000 \div 118,000,000 = 40.7\%$$

+0.7 percentage points

In 2025, about 40.7 cents of each sales dollar remained after cost of goods sold. The two totals do not establish why the rate changed.



Operating margin

Compare operating income with net sales from the same period.

CALCULATE THE RATE

$$\begin{array}{r} \text{Operating income} \\ \div \text{Net sales} \\ \hline = \text{Operating margin} \end{array}$$

READ THE RESULT

A 20% margin means central operations produced 20 cents of income for each sales dollar.

Cost of revenue, selling costs, and administrative costs affect this rate. Other income, financing items, and income tax do not.

Granite Harbor's operating margin

Both divisions use operating income and sales from the same year.

FORMULA

Operating margin = Operating income $\div$ Net sales

OPERATING MARGIN

2024 $20,000,000 \div 100,000,000 = 20.0\%$

2025 $26,000,000 \div 118,000,000 = 22.0\%$

+2.0 percentage points

OPERATING-INCOME GROWTH

$6,000,000$ change

$\div$ $20,000,000$ base

= 30% growth

The 2025 margin means central operations produced 22 cents for each sales dollar. The 30% figure instead measures how much operating-income dollars increased.



Net profit margin

Its numerator is net income, including items below operating income.

CALCULATE THE RATE

$$\begin{array}{r} \text{Net income} \\ \div \text{Net sales} \\ \hline = \text{Net profit margin} \end{array}$$

READ THE RESULT

This rate shows net income earned for each sales dollar.

Other income and expense, income tax, and a discontinued result can change net margin without changing operating margin.

Granite Harbor's net profit margin

Both divisions use net income and sales from the same year.

FORMULA

Net profit margin = Net income ÷ Net sales

2024: $18,000,000 \div 100,000,000 = 18.0\%$

2025: $17,000,000 \div 118,000,000 = 14.4\%$

2025 MARGIN BRIDGE

Continuing income margin 16.9%

Discontinued-loss effect (2.5 points)

Net profit margin 14.4%

COMPARE WITH 2024

18.0% → 14.4%

Net margin fell 3.6 percentage points while operating margin rose.

Net margin includes the discontinued loss; operating margin does not.

Compare the three profit margins

The denominator stays the same; the numerator moves down the income statement.

RATIO	NUMERATOR	DENOMINATOR	WHAT CHANGES
Gross profit rate	Gross profit	Net sales	Shows net sales and cost of revenue.
Operating margin	Operating income	Net sales	Adds selling and administrative expenses.
Net profit margin	Net income	Net sales	Adds other income and expense, tax, and discontinued results.

WHAT THEY SHARE

Each ratio uses net sales from the same period as its denominator.

WHY THEY CAN MOVE DIFFERENTLY

Each successive numerator includes another layer of the income statement.

? How did operating margin change?

? iClicker · Question 3 of 5

Year 1 revenue is 100 and operating income is 18. Year 2 revenue is 120 and operating income is 24. Amounts use the same unit. Which statement is supported?

- ☐ A Operating margin rose from 18% to 20%.
- ☐ B Operating margin rose by 6 percentage points.
- ☐ C Operating margin stayed at 18%.
- ☐ D Operating income fell.

✓ The operating margin rose two points

Year 1 reports 100 of revenue and 18 of operating income; Year 2 reports 120 and 24.

✓ iClicker · Answer 3 of 5

A

Operating margin rose from 18% to 20%.

Year 1 is 18 divided by 100. Year 2 is 24 divided by 120. The increase is 2 percentage points.

B

Operating margin rose by 6 percentage points. Six is the increase in operating-income units, not the percentage-point change in margin.

C

Operating margin stayed at 18%. The different revenue amounts change the denominator.

D

Operating income fell. Operating income increased from 18 to 24.

AFTER NET INCOME

Other comprehensive income

Separate net income, current OCI, and
accumulated OCI.





Other comprehensive income

OCI contains specified results outside net income.

FOREIGN CURRENCY

Translation adjustments

CASH-FLOW HEDGES

Effective gains and losses on qualifying hedges

DEBT SECURITIES

Unrealized holding gains and losses on available-for-sale debt securities

PENSION ITEMS

Certain pension-related changes

THE BOUNDARY APPLIES TO EVERY ITEM

A specific accounting rule must direct an item to OCI. Describing an item as unrealized does not establish that route.

ASC 220-10-45-10A lists categories of other comprehensive income.



Net income or OCI?

Cash status alone does not decide the route.

NET INCOME

- Ordinary depreciation expense enters net income.
- A gain or loss on an ordinary asset disposal enters net income.
- Neither result moves to OCI merely because no cash changes hands in the period.

OTHER COMPREHENSIVE INCOME

- An effective gain on a qualifying cash-flow hedge can enter OCI.
- A holding gain on an available-for-sale debt security can enter OCI.
- The applicable accounting rule—not the word *unrealized*—determines this route.



Granite Harbor: comprehensive income

Granite Harbor Manufacturing · Year ended December 31, 2025 · US dollars

STATEMENT OF COMPREHENSIVE INCOME

Net income	17,000,000
Other comprehensive income, after tax	1,000,000

COMPREHENSIVE INCOME

18,000,000

WHAT CHANGED

The 1,000,000 holding gain increases comprehensive income without entering net income.

The supplied debt securities are classified as available for sale. The gain is after tax.

A company may present net income and OCI in one continuous statement or in two consecutive statements.

💡 Current OCI and accumulated OCI

One is a period result; the other is an equity balance.

CURRENT-PERIOD OCI

1,000,000

Reported in 2025 comprehensive income.

ASC 220-10-45-14 addresses the separate accumulated OCI equity component.

AOCI ROLLFORWARD

No reclassifications or other AOCI changes.

Opening accumulated balance	2,000,000
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Current-period OCI	1,000,000
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Ending AOCI	3,000,000
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AOCI is a separate equity balance.

? Which result enters OCI?

? iClicker · Question 4 of 5

A company records depreciation expense and an effective gain on a derivative designated and qualifying as a cash-flow hedge. Which pairing is correct?

- ☐ A Depreciation in net income; hedge gain in OCI.
- ☐ B Both results in OCI.
- ☐ C Both results in net income.
- ☐ D Depreciation in OCI; hedge gain in revenue.

✓ The qualifying hedge gain enters OCI

Which pairing correctly places depreciation and a qualifying cash-flow-hedge gain?

✓ iClicker · Answer 4 of 5

A

Depreciation in net income; hedge gain in OCI.

Depreciation is an expense in net income. The supplied qualifying cash-flow-hedge gain enters OCI.

B

Both results in OCI. Depreciation does not enter OCI merely because it is noncash.

C

Both results in net income. The supplied hedge qualification routes the effective gain to OCI.

D

Depreciation in OCI; hedge gain in revenue. This misplaces depreciation and incorrectly labels the hedge gain as revenue.

EVALUATE THE CLAIM

Interpret the reported results

Identify the comparison the statement supports
and the evidence still needed.





What reported income can establish

A reported result and a claim about cash are different questions.

THE STATEMENT ESTABLISHES

- Recognized revenue, expenses, gains, and losses for the period.
- The resulting income-statement subtotals.
- Measured changes in comparable reported amounts.

CLAIMS THAT NEED MORE EVIDENCE

- Causes require operating detail and notes.
- Available cash requires cash-flow information, debt terms, and other cash needs.
- A future result cannot be inferred from one reported margin.



Evaluate the sales manager's claim

Granite Harbor Manufacturing · Year ended December 31, 2025 · US dollars

THE CLAIM

Granite Harbor's gross profit rate rose from 40.0% to 40.7%. A sales manager concludes that higher selling prices caused the improvement.

WHAT THE STATEMENT ESTABLISHES

- The rate rose 0.7 percentage points.
- In 2025, 40.7 cents per sales dollar remained after cost of goods sold.
- The improvement is reported.

WHAT THE CAUSE CLAIM REQUIRES

- Selling prices.
- Costs included in cost of goods sold.
- Sales volume and product mix.

? What does the margin evidence support?

? iClicker · Question 5 of 5

A company's net profit margin rose from 8% to 10%, while its operating margin fell from 14% to 12%. Which conclusion is supported?

- ☐ A The net result improved per sales dollar, but central operating profitability declined.
- ☐ B Central operating profitability improved because net margin increased.
- ☐ C Both margins improved by 2 percentage points.
- ☐ D The company generated more cash per sales dollar.

✓ The two margins describe different layers

Net margin rose from 8% to 10%; operating margin fell from 14% to 12%.

✓ iClicker · Answer 5 of 5

A

The net result improved per sales dollar, but central operating profitability declined.

Net margin measures the final net-income layer. Operating margin measures central operations. Their opposite directions support both parts of the answer.

B

Incorrect. The operating margin fell from 14% to 12%, so the operating layer did not improve.

C

Incorrect. Net margin rose 2 points, but operating margin fell 2 points.

D

Incorrect. Neither accrual-income margin establishes cash generated per sales dollar.

NEXT CLASS • TUESDAY, SEPTEMBER 22

Classify discontinued operations

Required before Tuesday: Read Chapter 7 on the course site.

Unit 2 review assignment: Due Sunday, September 27, at 11:59 p.m. (D2L).

Optional practice: Chapter 6 practice on the course site.