

FA Module 3: The income statement (statement of profit and loss) – homework assignment

(The attached PDF file has better formatting.)

Homework assignment:

Answer the following for the six month illustrative financial statements of the Good Group in 2016 and 2017 (see the attached file to the homework assignment for Module 1):

- A. What is the gross profit margin? (Use net revenue as the divisor, not just sale of goods.)
- B. What is the operating margin?
- C. What is the net profit margin?
- D. What are the average numbers of outstanding common shares? (Earnings per share uses profit for the period attributable to ordinary equity holders of the parent. The figures in the financial statements are rounded, so the average number of outstanding common shares may not be an integer.)
- E. What percentage of total comprehensive income flows through the statement of profit and loss? If the percentage is less than zero or more than 100%, explain why.
- F. Is the firm performing better or worse in 2016 or in 2017? Explain what each of the following indicate: business volume, merchandise costs, operating expenses, discontinued operations, taxes. (For business volume, assume inflation in Europe was about 2% in 2016-17. Compare the change in merchandise costs to the change in business volume. Consider only selling, distribution, and administrative expenses for operating expenses. If discontinued operations are removed, how does net income change? The current income tax expense is another measure of profitability. What is the ratio of current income tax expense for 2017 vs 2016 in Note 7?)

The homework assignment checks if you understand the concepts. Some questions, such as Part F above, do not have a single “correct” answer. Explain what the statement of profit and loss and the statement of other comprehensive income suggest; you need not read through the notes to the financial statements.