COVER PAGE AND DECLARATION

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Income statement for 50 swipes Limited

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Introduction:

An income statement is one of three major financial statements, along with balance sheet and cash flow statement, that report a company's financial performance over a specific accounting period. Income statement focuses on revenue, expenses, gains, and losses of a company during a particular period.

An income statement provides valuable insights into a company's operations, efficiency of its management, underperforming sectors, and its performance relative to industry peers.

An income statement is a financial statement that shows company's income and expenditures. Also shows whether a company is making profit or loss for a given period. Income statement, along with balance sheet and cash flow statement, helps understand financial health of business.

Income statement also known as a profit and loss statement, statement of operation, statement of financial result or income, or earnings statement.

Importance of income statement for 50 swipes Limited

Income statement helps 50 swipes Limited owners decide whether they can generate profit by increasing revenues, by decreasing costs, or both. Also shows effectiveness of strategies that 50 swipes Limited set at the beginning of a financial period. The 50 swipes Limited owners can refer to income statement to see if the strategies have paid off. Based on their analysis, they can come up with the best solutions to yield more profit.

Following few other things income statement informs.

1. **Frequent reports:** While other financial statements are published annually, income statement is generated either quarterly or monthly. Due to this, 50 swipes Limited owners and investors can track performance of business closely, make informed decisions. This enables 50 swipes Limited to find and fix small business problems before they become large and expensive.
2. **Pinpointing expenses:** This statement highlights the future expenses or any unexpected expenditures which are incurred by the 50 swipes Limited, and any areas which are over or under budget. Expenses include building rent, salaries and other overhead costs. As a small business begins to grow, it may find its expenses soaring. These expenditures may involve hiring workers, buying supplies and promoting the business.

3. **Overall analysis of the 50 swipes Limited:** This statement gives investors an overview of business in which 50 swipes Limited are planning to invest. Banks and other financial institutions can analyze this document to decide whether the business is loan-worthy.

Who uses an income statement?

Two main groups of people who use this financial statement: internal and external users. Internal users include company management in our case 50 swipes Limited board of directors, who use this information to analyze the business's standing and make decisions in order to turn a profit. Also act on any concerns regarding cash flow. External users comprise investors, creditors, and competitors. Investors check whether the company is positioned to grow and be profitable in the future, so they can decide whether to invest in business. Creditors use income statement to check whether 50 swipes Limited has enough cash flow to pay off its loans or take out a new loan. Competitors use them to get details about the success parameters of a business and get to know about areas where business is spending an extra bit.

Income statement format with the major components

Following information is covered in an income statement. The format for this document may vary depending on the regulatory requirements, the diverse business needs and the associated operating activities.

Revenue or sales: First section on the income statement, and it gives 50 swipes Limited a summary of gross sales made by the company. Revenue can be classified into two types: operating and non-operating. Operating revenue refers to the revenue gained by a company by performing primary activities like manufacturing a product or providing a service. Non-operating revenue is gained by performing non-core business activities such as installation, operation, or maintenance of a system.

Cost of goods sold (COGS): Total cost of sales or services, referred to cost incurred to manufacture goods or services. Keep in mind that it only includes cost of products which 50 swipes Limited sell (screen protector for laptops computers). COGS does not usually include indirect costs.

Gross profit: Gross profit defined as net sales minus total cost of goods sold in your business. Net sales is amount of money 50 swipes Limited brought in for the goods sold, while COGS is the money 50 swipes Limited spent to produce those goods.

Gains: Gain is a result of a positive event that causes an organization's income to increase. Gains indicate amount of money realized by the 50 swipes Limited from various business activities like sale of an operating segment. Likewise, profits from one time non-business activities are also included as gains for business. For example, company selling off old vehicles or unused lands etc. Although gain is considered secondary type of revenue, the two terms are different. Revenue is money received by a company regularly while gain can be accounted for sale of fixed assets, which is counted as a rare activity for a company.

Expenses: Expenses are costs that 50 swipes Limited has to pay in order to generate revenue. Some examples of common expenses are equipment depreciation, employee wages, and supplier payments. There are two main categories for business expenses: operating and non-operating expenses. Expenses generated by 50 swipes Limited core business activities are operating expenses, while the ones which are not generated by core business activities are known as non-operating expenses.

Advertising expenses: These expenses are simply the marketing costs required to expand the client base. They include advertisements in print and online media as well as radio and video ads. Advertising costs are generally considered part of Sales, General & Administrative (SG&A) expenses.

Administrative expenses: It can be defined as the expenditure incurred by a business or company as a whole rather than being the ones associated with specific departments of the 50 swipes Limited . Some of the examples of administrative expenses are salaries, rent, office supplies, and travel expenses. Administrative expenses are fixed in nature and tend to exist irrespective of the level of sales.

Depreciation: Depreciation refers to the practice of distributing the cost of a long-term asset over its life span. It is a management accord to write off a company’s asset value but it is considered a non-cash transaction. Depreciation mainly shows the asset value used up by the business over a period of time.

Earnings before tax (EBT): This is a measure of a company’s financial performance. EBT is calculated by subtracting expenses from income, before taxes. It is one of the line items on a multi-step income statement.

Net income: Net profit can be defined as the amount of money you earn after deducting allowable business expenses. It is calculated by subtracting total expenses from total revenue. While net income is a company’s earnings, gross profit can be defined as the money earned by a company after deducting the cost of goods sold.

How to read an income statement for 50 swipes Limited

To understand an income statement, let’s use an example. Here’s the income statement for months of February and March using :(20%) for 50 swipes Limited screen protector for laptops computers. .

Income statement for 50 swipes Limited

Months of February and March using

Merchandise sales	$ 30,000
Revenue from training	5,000
Total revenue	**35,000**
EXPENSES	
Procurement costs	$ 10,000
Wages	500
Rent	2,000
Interest paid	500
Transportation	300
Utilities	150
Total expenses	**13,450**
GAINS	
Income from van sale	**2,000**
LOSES	
Consumer lawsuit	**1,000**
NET Income = [Revenue + Gains] - [Expenses + Losses]	$ 22,550

From the above example, you can see that 50 swipes Limited earned $30,000 from the sale of goods and another $5,000 by charging for training. 50 swipes Limited spent money on various activities, to arrive at total expenses of $13,450. They gained $2,000 by selling an old van, while facing a loss of $1,000 for settling a pending consumer lawsuit. Now, to calculate the net income, let us enter the values in the following equation:

Net Income = (Revenue + Gains) – (Expenses + Losses)

= (35,000 + 2,000) – (13,450 + 1,000) = $22,550

The above example is one of the simplest types of income statements, where 50 swipes Limited can apply the values of income, expense, gains and loss into the equation to arrive at the net income. Since it is based on a simple calculation, it is called a *single-step income statement*.

MULTI-STEP INCOME STATEMENT EXAMPLE

In the 50 swipes Limited if operate at a global level provide a wide range of products and services and involve themselves in mergers and partnerships. Due to these activities, they have a complex list of activities and expenses to note. 50 swipes Limited also have to comply with specific reporting regulations. So bigger companies opt for *multi-step income statements*. In this system, operating revenues, operating expenses, and gains are separated from non-operating expenses, non-operating revenues, and losses. Profitability is represented at four levels: gross, operating, pre-tax, and post-tax. The following example uses the same company data as the single-step income statement.

Income statement for 50 swipes Limited

Months of February and March using

Sales	$ 50,000
Cost of goods sold	
Materials	8,000
Labor	11,000
Overhead	6,000
Gross margin	**25,000**
Operating expenses	
Selling expenses	9,000
Administrative expenses	6,000
Depreciation	5,000
Operating income	**$ 5,000**
Other income and expenses	
Interest revenue	5,000
Interest expenses	(10,000)
Extraordinary items	20,000
Income before tax	20,000
Income tax	12,750
Net income	**$ 7,250**

a. Absorption costing:

Absorption cost formula = (Direct labor cost + Direct material cost + Variable manufacturing overhead cost + Fixed manufacturing overhead) / No. of units produced.

b. Variable Costing?

Although absorption costing is used for external reporting, managers often prefer to use an alternative costing approach for internal reporting purposes called variable costing.

Variable costing requires all variable production costs be included in inventory, all fixed production costs (fixed manufacturing overhead) be reported as period costs.

Thus all fixed production costs are expensed as incurred.

Only difference between absorption costing and variable costing is in the treatment of fixed manufacturing overhead.

Using absorption costing, fixed manufacturing overhead is reported as a product cost.

Using variable costing, fixed manufacturing overhead is reported as a period cost.

Advantages of Using Variable Costing

Variable costing provides managers with information necessary to prepare a contribution margin income statement, which leads to more effective cost-volume-profit (CVP) analysis.

By separating variable and fixed costs, managers are able to determine contribution margin ratios, break-even points, and target profit points, and to perform sensitivity analysis.

Conversely, absorption costing meets requirements of U.S. GAAP, but is not as useful for internal decision-making purposes.

Another advantage of using variable costing internally is it prevents managers from increasing production solely for the purpose of inflating profit.

However, in short run, manager will increase profit by increasing production.

Advantages of Absorption Costing

Use of absorption costing method comes with a lot of benefits. Major benefits of this costing method include:

Absorption costing method reflects fixed costs that are attributable to the production of goods and services. It identifies the necessity of fixed costs when estimating costs involved in production.

It is a more accurate costing method when compared to other traditional costing methods and even its counterpart; variable costing.

Absorption costing also account for the expenses of unsold products, this is important for external reporting as required by GAAP.

This method achieves a better and higher net income estimation. This is because it helps to achieve less fluctuation in net profits.

Disadvantages of Absorption Costing

Despite good benefits companies can derive from using absorption costing method, it has some disadvantages. Major dark sides of this costing method include the fact that it results in the increase of net income. Because this method accounts for fixed costs, the higher the goods produced at a time, the lesser the fixed costs that will be attributable to the production of the goods, which in turn causes the net income to increase. Hence, fixed costs accounted for in this method are less favorable compared to variable costing. Another disadvantage of absorption costing is that cost volume profit (CVP) is difficult to analyze when it is being used.

Reconcile profit calculated using absorption costing to that using variable costing for 50 swipes Limited:

Net income under absorption costing can be reconciled with net income under variable costing by (a) subtracting the manufacturing overheads carried forward (absorbed by closing inventories) and (b) adding the manufacturing overheads brought in (absorbed by opening inventories).

Absorption costing is a method in which cost of units produced is calculated as the sum of both variables, manufacturing costs incurred and the fixed manufacturing costs allocated to those units. Also called full absorption costing or full costing, because all product costs (including the fixed manufacturing overheads) are included in cost of units produced and carried forward to future periods, instead of being charged wholly to income statement in a single period.

While direct costs (such as direct materials, direct labor and variable manufacturing overheads) are traceable to different units, indirect costs such as fixed manufacturing overheads require allocation to different units on some reasonable basis. Depending on whether fixed manufacturing costs are assigned to units or not, there are two possible approaches to finding cost of units produced, namely absorption costing and variable costing (also called marginal costing). In absorption costing, fixed manufacturing costs are assigned to units while in variable costing, fixed manufacturing costs are not assigned to units but are subtracted from sales in the period in which they are incurred.

Absorption costing income statement for 50 swipes Limited

Net income under absorption costing is calculated as follows:

	Sales
Less	Cost of goods sold

Equals Gross margin

Less Selling & admin expenses

Equals Net income

Cost of goods sold is calculated as follows:

Opening inventories balance

Add Manufacturing cost for the period

Less Closing inventories balance

Equals Cost of goods sold

Manufacturing cost for the period
= direct materials
+ direct labor
+ variable manufacturing overheads
+ fixed manufacturing overheads

Cost of inventories depends on which cost flow assumption is used. Under the FIFO method, cost of closing inventories = manufacturing cost for the period/units produced × units in closing inventories.

Example

50 swipes Limited . manufactures screen protector for laptops computers.. Information for the financial year ended 31 March 2021 is given below.

Units in opening inventories	3,000
Units produced during the year	22,000
Units in closing inventories	4,000
Direct materials	2,000

Direct labor	3,000
Variable manufacturing overheads	1,000
Fixed manufacturing overheads	1,500
Total cost of opening inventories	7,500
Direct materials for the period	16,100
Direct labor for the period	22,000
Variable manufacturing overheads for the period	11,000
Fixed manufacturing overheads for the period	13,200
Total manufacturing cost for the period	62,300
Variable selling & administrative expenses for the period	4,400
Fixed selling & administrative expenses for the period	10,000

If price per unit sold is $4.5, calculate net income under the absorption costing and reconcile it with variable costing net income which comes out to be $20,727.

<u>Solution</u>

Number of units sold = 3,000 + 22,000 - 4,000 = 21,000

Sales revenue = 21,000 × $4.5 = $94,500

Cost of closing inventories = $62,300/22,000 × 4,000 = $11,327

Cost of goods sold = $7,500 + $94,500 - $11,327 = $58,473

Gross profit = $94,500 - $58,473 = $36,027

Net income = $36,027 - $4,400 - $10,000 = $21,627

Reconciliation between absorption costing and variable costing

Net income under absorption costing can be reconciled with net income under variable costing by (a) subtracting the manufacturing overheads carried forward (absorbed by closing inventories) and (b) adding the manufacturing overheads brought in (absorbed by opening inventories).

Net income (absorption costing)

Less Fixed manufacturing overheads carried forward (closing inventories)

Add Fixed manufacturing overheads brought in (opening inventories)

Equals Net income (variable costing)

Fixed manufacturing overheads included in closing inventories = $13,200/22,000 × 4,000 = $2,400

Fixed manufacturing overheads included in opening inventories = $1,500

Net income (variable costing) = $21,627 - $2,400 + 1,500 = $20,727.

Three ways that 50 swipes Limited can improve its accounting systems:

1. Get the right tools:

Just like having the right tool in your tool belt, having the most efficient software is critical for 50 swipes Limited. If you want most effective and up to date tools, cloud-based solutions are where it's at.

Project/Job Management & Time Tracking: Utilize a job or project management tool such as efficient software to stay up-to-date on progress of client work so you can send invoices as soon as work is completed. Expenses and purchase orders are stored directly against a job, so can be clearly displayed on your invoice. The time tracking feature allows 50 swipes Limited team to enter their time directly into software so there's no guess work when it comes to billing.

This will allow **50 swipes Limited** to run financials from anywhere, view cash flow reports, create and send invoices, schedule payments, pay bills, and more. This means 50 swipes Limited can take a day away from the office or job site and still check remotely on how the business is doing in real time.

2. Get efficient with invoicing

If 50 swipes Limited got the right tools there's no need to wait until the end of the month to do your invoicing. Here's how to reduce the time between completing the job and getting money in the bank:

Define short payment terms. If you've completed your work in a matter of hours or days, why wait six weeks for payment? Make your terms of trade clear from the start, in contracts or quotes with your customers and on your invoices. 14 days is common and even seven days is unlikely to be a problem for most well-run companies like 50 swipes Limited. 50 swipes Limited can certainly invoice and expect payment straight away from customers who have no established history with 50 swipes Limited.

Send invoices promptly and regularly. Ask for your client's email address and send the invoice straight after work is done when it's top of their mind. Or, in the case of on-going work, send invoices on a regular basis. This doesn't need to be a monthly cycle, consider fortnightly invoicing so debts do not mount up.

3. Chase up the slow payers

Again, good accounting software is a key for 50 swipes Limited to keep an eye on outstanding debtors, and takes out much of the effort involved in the follow-up process.

Keep track of the figures. You can't chase debtors if you don't know who owes you money! If 50 swipes Limited accounts are currently kept on scraps of paper or in an old spreadsheet then must upgrade to one of the cloud accounting software .

50 swipes Limited can send prompt reminders. Send reminders to late payers as soon as invoices become due. Automated email reminders are a good start. If there's no response within two business days, follow up by phone. The best way to deal with a late payer is to prevent them becoming a late payer in the first place. Be proactive about this.

Keeping things ship shape may not be 50 swipes Limited thing, but managing efficient systems and making use of smart tools is a better way to do business. The best bit is, 50 swipes Limited reap all the rewards: more time, less stress, better bank balance.

Why managing accounting jobs are important to manufacturing company:

Essentially, managerial accountants provide key insights that help 50 swipes Limited management team make many of their decisions. Also support decision making within a company by providing a wealth of financial and statistical information, often assisted by powerful accounting software.

Management accounting analyzes all real and value-based costs within manufacturing company, 50 swipes Limited operations. This information is used internally by managers to better run the 50 swipes

Limited and is not reported to outside creditors and shareholders, as compared to financial accounting statements that meet external reporting standards. Methods vary; however, most management accounting systems are predictive, confidential and use custom information systems created by the company.

Management Accountants

50 swipes Limited hires a management accountant to analyze internal costs and give strategic analysis to members of management. Such an accountant must have an understanding of process and financial accounting, because this position requires the overseeing of basic journal entries, budgets and the cost of operations. A management accountant enforces both internal costing procedures and generally accepted accounting practices.

Methods

The base for management accounting is variance analysis. This is a periodic comparison between actual and budgeted costs, and it will identify broad process errors immediately. Activity-based costing takes the analysis further by identifying each production activity as the driver for cost and seeks to maintain a continuous work-flow rather than reduce material or labor costs. Many custom accounting practices may be designed from variance and activity-based costing.

Material Requirements Planning

Material requirements planning integrates budgets and costs to provide real-time planning for a manufacturing plant. This involves using inventory numbers to fill current orders and providing forecasting models to meet demand. The master production schedule gives the management team and labor force a clear guide to upcoming orders and production needs.

Conclusion

An income statement is a rich source of information about key factors responsible for a company's profitability. It gives 50 swipes Limited timely updates because it is generated much more frequently than any other statement. The income statement shows a company's expense, income, gains, and losses, which can be put into a mathematical equation to arrive at the net profit or loss for that time period. This information helps you make timely decisions to make sure that your business is on a good financial footing.

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