Income Statement

Topics to be Discussed

- Revenue recognition
- Expense recognition
- Extraordinary items
- Prior period adjustments
- Accounting changes
    - Change in accounting principle
    - Change in accounting estimate
- Income tax allocation
    - Intraperiod tax allocation
- Income statement formats
- Earnings per share

Revenue Recognition

revenue principle

revenue is generally considered to be realized when

- ☛ all efforts necessary to earn revenue have been completed by the entity
- ☛ an arms-length exchange has taken place

revenue is generally recognized at the point of sale (when title passes) or as service is performed

THE NEW YORK TIMES COMPANY
December 26, 2010 10K Report

Revenue Recognition
– Advertising revenue is recognized when advertisements are published or placed on our digital media platforms . . .
– Circulation revenue includes newsstand and subscription revenue. Newsstand revenue is recognized based on date of publication, net of provisions for related returns. Proceeds from subscription revenue are deferred at the time of sale and are recognized in earnings on a pro rata basis over the terms of the subscriptions.

USA Truck, Inc.

The Company operates as a dry van truckload motor carrier transporting general commodities throughout the continental United States and between locations in the Unites States and Quebec and Ontario, Canada

1994 ANNUAL REPORT

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Revenue recognition

Prior to 1992, revenues were recognized on the date the shipments were picked up from the customer. Drivers' wages and other direct operating expenses were accrued when the related revenue was recognized.

In January 1992, the Emerging Issues Task Force of the Financial Accounting Standards Board reached a consensus that recognition of revenue for freight when picked up from the customer was no longer an acceptable accounting method. As a result, the Company adopted a new revenue recognition method whereby revenue is allocated between reporting periods based on relative transit time in each period and direct expenses are allocated on the same basis.

USA Truck, Inc.
2008 10-K REPORT

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Revenue recognition
Revenue generated by the Company's Trucking operating segment is recognized in full upon completion of delivery of freight to the receiver's location. For freight in transit at the end of a reporting period, the Company recognizes revenue pro rata based on relative transit time completed as a portion of the estimated total transit time. . . . Expenses are recognized as incurred.

CARNIVAL PLC.
November 30, 2008 ANNUAL REPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue and Expense Recognition

Guest cruise deposits represent unearned revenues and are initially recorded as customer deposit liabilities when received. Customer deposits are subsequently recognized as cruise revenues, together with revenues from onboard and other activities (which include transportation and shore excursion revenues), and all associated direct costs of a voyage are recognized as cruise expenses, upon completion of voyages with durations of ten nights or less and on a pro rata basis for voyages in excess of ten nights. Future travel discount vouchers issued to guests are typically recorded as a reduction of cruise passenger ticket revenues when such vouchers are utilized. . . . Revenues and expenses from our tour and travel services are recognized at the time the services are performed or expenses are incurred.

AMERICAN GREETINGS CORPORATION
February 28, 2009 10-K REPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Significant Accounting Policies

Revenue recognition

Sales of seasonal product to unrelated, third party retailers are recognized at the approximate date the product is received by the customer, commonly referred to in the industry as the ship-to-arrive date (“STA”). The Corporation maintains STA data due to the large volume of seasonal product shipment activity and the lead time required to achieve customer-requested delivery dates. Seasonal cards and certain other seasonal products and everyday cards at certain foreign locations are generally sold with the right of return on unsold merchandise. In addition, the Corporation provides for estimated returns of these products when those sales to unrelated, third party retailers are recognized. These estimates are based on historical sales returns, the amount of current year sales and other known factors. Accrual rates utilized for establishing estimated returns reserves have approximated actual returns experience. At Corporation-owned retail locations, sales of seasonal product are recognized upon the sales of products to the consumer.

Except for products sold with a right of return and retailers with a scan-based trading (“SBT”) arrangement, sales are generally recognized by the Corporation upon shipment of products to unrelated, third party retailers and upon the sale of products to the consumer at Corporation-owned retail locations. Sales of these products are generally sold without the right of return and sales credits for non-seasonal product are issued at the Corporation’s disacretion for damaged, obsolete and outdated products.

ALASKA AIRLINES, INC.
2008 10-K REPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1: SUMMARY OF ACCOUNTING POLICIES

Revenue Recognition

Passenger revenue is recognized when the passenger travels. Tickets sold but not yet used are reported as air traffic liability. Passenger traffic commissions and related fees are expensed when the related revenue is recognized. Passenger traffic commissions and related fees not yet recognized are included as a prepaid expense. Due to complex pricing structures, refund and exchange policies, and interline agreements with other airlines, certain amounts are recognized as revenue using estimates regarding both the timing of the revenue recognition and the amount of revenue to be recognized. These estimates are generally based on the Company's historical data.

Mileage Plan

The Company operates a frequent flyer program ("Mileage Plan") that provides travel awards to members based on accumulated mileage. For miles earned by flying on Alaska and through airline partners, the estimated cost of providing free travel awards is recognized as a selling expense and accrued as a liability as miles are earned and accumulated. The Company also sells mileage credits to non-airline partners such as hotels, car rental agencies, a grocery store chain, and a major bank that offers Alaska Airlines affinity credit cards. The Company defers the portion of the sales proceeds that represents the estimated fair value of the award transportation and recognizes that amount as revenue when the award transportation is provided. The deferred proceeds are recognized as passenger revenue for awards redeemed and flown on Alaska or Horizon, and as other-net revenue for awards redeemed and flown on other airlines. The portion of the sales proceeds not deferred is recognized as commission income and included in other revenue-net in the statements of operations.

Intel Corporation
December 25, 2010 10-K REPORT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

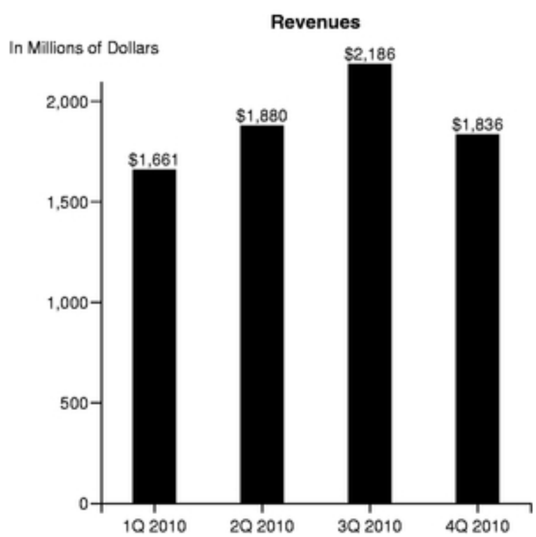
Note 2: Accounting Policies (in part)
Revenue Recognition

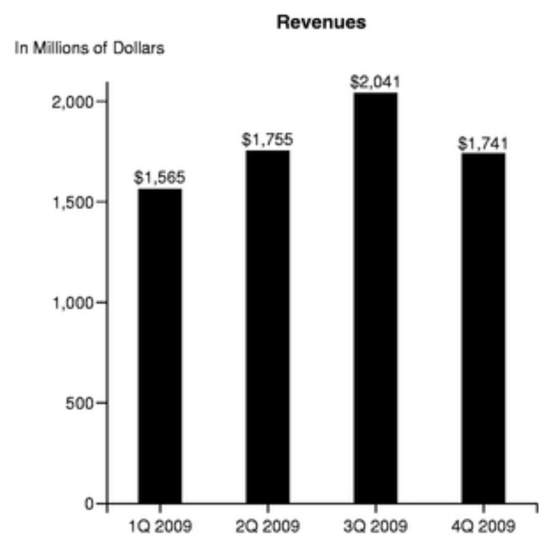
We recognize net revenue when the earnings process is complete, as evidenced by an agreement with the customer, transfer of title, and acceptance, if applicable, as well as fixed pricing and probable collectibility. We record pricing allowances, including discounts based on contractual arrangements with customers, when we recognize revenue as a reduction to both accounts receivable and net revenue. Because of frequent sales price reductions and rapid technology obsolescence in the industry, we defer product revenue and related costs of sales from sales made to distributors under agreements allowing price protection or right of return until the distributors sell the merchandise. The right of return granted generally consists of a stock rotation program in which distributors are able to exchange certain products based on the number of qualified purchases made by the distributor. Under the price protection program, we give distributors credits for the difference between the original price paid and the current price that we offer. We record the net deferred income from product sales to distributors on our balance sheet as deferred income on shipments to distributors. We include shipping charges billed to customers in net revenue, and include the related shipping costs in cost of sales.

Hertz Corporation
2010 10-K REPORT

ITEM 1. Business

Seasonality
Generally, car rental and equipment rental are seasonal businesses, with decreased levels of business in the winter months and heightened activity during spring and summer. To accommodate increased demand, we increase our available fleet and staff during the second and third quarters of the year. As business demand declines, fleet and staff are decreased accordingly. However, certain operating expenses, including real estate taxes, rent, insurance, utilities, maintenance and other facility-related expenses, the costs of operating our information technology systems and minimum staffing costs, remain fixed and cannot be adjusted for seasonal demand. See "Item 1A—Risk Factors" in this AnnualReport. The following tables set forth this seasonal effect by providing quarterly revenues for each of the quarters in the years ended December 31, 2010 and 2009.





Priceline.com
2010 10-K REPORT

Item 1A: Risk Factors (in part)

Our revenues and operating results have varied significantly from quarter to quarter because our business experiences seasonal fluctuations, which reflect seasonal trends for the travel services offered by our websites. Traditional leisure travel bookings in the United States are higher in the second and third calendar quarters of the year as consumers take spring and summer vacations. In the first and fourth quarters of the calendar year, demand for travel services in the United States and Europe generally declines from a seasonal perspective. Furthermore, prior to introducing a retail travel option to our customers, substantially all of our business was conducted under the *Name Your Own Price®* system and accordingly, because those services are non-refundable in nature, we recognize travel revenue at the time a booking was generated. We recognize revenue generated from our retail hotel service, however, including Booking.com and Agoda, at the time that the customer checks out of the hotel. As a result, we have seen and expect to continue to see, that a meaningful amount of retail hotel bookings generated earlier in the year, as customers plan and reserve their spring and summer vacations, will not be recognized until future quarters. This could result in a disproportionate amount of our annual earnings being recognized in later quarters.

Expense Recognition

Matching principle

against the revenues of a time period we should match the related expenses, the expenses that generated the revenue

Extraordinary items

Current Operating Concept

Income statement

normal and recurring operating items

Retained earnings statement

extraordinary and infrequently occurring items

Supportive arguments

- ☛ the income statement should show as clearly as possible what the company was able to earn under normal conditions for the period
- ☛ the trained accountant is in a better position to distinguish between ordinary and extraordinary items than outsiders or nonaccountants

All-Inclusive Concept

Income statement

normal and recurring operating items as well as extraordinary and infrequently occurring items

Supportive argument

- ☛ the income statement should provide the full story of activities so that annual statements since the start of the enterprise will offer the total income history for the life of the enterprise

All-Inclusive Concept (continued)

Arguments against the current operating concept

- ☛ readers of financial statements may be unaware of the fact that some revenue/expense items may not be shown in the income statement, but rather appear in the retained earnings statement
- ☛ income may be manipulated by burying significant information in retained earnings
- ☛ the use of the current operating concept results in the reporting of normalized income rather than "actual" income
- ☛ unusual events are part of the past and should be considered in arriving at estimates concerning the future
- ☛ differences in judgment will be found in the treatment of borderline cases

APB Opinion #9

> ". . . net income should reflect all items of profit and loss recognized during the period with the sole exception of . . . prior period adjustments. . . . Extraordinary items should, however, be segregated from the results of ordinary operations and shown separately in the income statement with disclosure of the nature and amounts thereof."

APB Opinion #30

for an occurrence to be classified as "extraordinary" it must meet both the following criteria:

Unusual in nature

- ☛ high degree of abnormality
- ☛ clearly unrelated to ordinary and typical activities
- ☛ take into account the environment in which entity operates

Infrequency of occurrence

- ☛ not reasonably expected to recur
- ☛ take into account the environment in which entity operates

classification as an extraordinary item reserved for material items

items specifically excluded from being classified as extraordinary:

- ☛ write-down or write-off of receivables, inventories, equipment leased to others, or intangible assets
- ☛ gains or losses from exchange or translation of foreign currencies, including those relating to major devaluations and revaluations
- ☛ gains or losses on disposal of a segment of a business
- ☛ other gains or losses from sale or abandonment of property, plant, or equipment used in the business
- ☛ effects of a strike, including those against competitors and major suppliers
- ☛ adjustment of accruals on long-term contracts

gains and losses from items shown above may be extraordinary if such gains or losses resulted from

- ☛ a major casualty, such as an earthquake
- ☛ an expropriation
- ☛ a prohibition under a newly enacted law or legislation

Income statement presentation of extraordinary items:

Income before extraordinary item	$XXX
Extraordinary items (less applicable income taxes of $YY) (Note Z)	XXX
Net income	$XXX

material events that are unusual <u>or</u> infrequently occurring, but <u>not both</u>:

- ☛ separate line disclosure on the face of the income statement
- ☛ <u>not</u> reported net of tax
- ☛ <u>not</u> reported in manner which could imply "extraordinary status"

Examples of extraordinary items

EXTRAORDINARY ITEMS

Nature	2006	2005	2004	2003
Negative goodwill	3	2	2	---
Debt extinguishments	---	---	---	4
Other	1	5	4	8
Total Extraordinary Items	4	5	4	12
Number of Companies				
Presenting extraordinary				
items	4	5	4	12
Not presenting extraordinary				
items	596	595	596	588
Total Companies	600	600	600	600

Extraordinary item

Charming Shoppes, Inc. and Subsidiaries
January 31, 2009 10-K REPORT
Page 72 (97) Income Statement
Page 86 (118) Footnotes

Prior Period Adjustments

FASB Statement #16
Limited to
- corrections of errors in financial statement of a prior year
- adjustments that result from realization of income tax benefits of preacquisition operating loss carryforwards of purchased subsidiaries

Description of accounting errors in prior financial statements
- mathematical mistakes
- a change from an unacceptable accounting principle to an accounting principle that is acceptable
- changes in estimate that occur because the estimates are not prepared in good faith
- an oversight such as the failure to accrue or defer certain assets and liabilities at the end of the period
- a misuse of facts such as the failure to use salvage value in computing the depreciation base for the straight-line approach
- the incorrect classification of a cost as an expense instead of an asset and vice versa

Reporting
- prior period adjustment to the opening retained earnings balance
- restate prior comparative financial statements

Accounting Changes

FASB Statement #154 – Accounting Changes and Error Corrections

Change in Accounting Estimate

- the effect of a change in accounting estimate should be accounted for in
  - the period of change if the change affects that period only, e.g. change in estimate of uncollectible accounts receivable
  - the period of change and future periods if the change affects both, e.g., change in estimated useful life of depreciable asset
- should not restate amounts reported in financial statements of prior periods
- estimates that recur annually (e.g., bad debt and inventory obsolescence estimation) do not require special disclosure. If effects in a given year are material, a separate line income statement disclosure may be desirable.

Changes in Accounting Principle

a change from one generally accepted accounting principle to another generally accepted accounting principle

- retrospective application to extent possible
- corresponding adjustment to opening retained earnings
- if retrospective application is impracticable, then apply prospectively
- Example: ABC Corp., which began business five years ago, changed its inventory method from weighted average to FIFO on January 1 of year five. Since ABC reports comparative financial statements for three years, it would have to restate years four and three to report the inventory on the FIFO basis with the corresponding effects on taxes, net income and retained earnings. The cumulative effect of the change on the years not reported (years 1 & 2) would be shown as adjustments to the January 1 Year 3 balances in inventory, taxes and retained earning. Year five would be reported on the FIFO method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Accounting Changes and Error Corrections

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" (SFAS No. 154), which replaces Accounting Principles Board (APB) Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements - An Amendment of APB Opinion No. 28". SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections, and it establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company adopted SFAS No. 154 in the first quarter of fiscal year 2007 and does not expect it to have a material impact on its consolidated results of operations and financial condition.

Willow Creek Enterprises, Inc.
August 31, 2009 10-K Report

a change in the method of depreciation

- to be treated as a change in estimate due to a change in accounting principle
- does not include the initial adoption of a principle to account for events that have occurred for the first time
- does not include a change from an improper accounting method to a proper method
- example: A change from the declining balance method of depreciation to the straight-line method would be accounted for as a change in accounting estimate and would affect only current and future periods. There would not be any retrospective application of the cumulative effect of the change.

SFAS 154 requires that a change in depreciation method be accounted for as a change in estimate, not as a change in accounting principle as previously required by APB 20. However, a change in depreciation methods must continue to be justified by its preferability and related disclosures must be provided.

Examples of accounting changes

Frequent changes:	Stock based compensation
	Defined benefit pension and postretirement plans
Infrequent changes:	Asset retirement obligation
	Prior period financial statement misstatements
	Inventories
	Goodwill and other intangibles
	Lease/rental costs
	Servicing of financial assets
	Exchange of nonmonetary assets
	Impairment or disposal of long-lived assets
	Postretirement prescription drug benefit
	Consolidation of variable interest entities

Accounting for Income Taxes

Tax allocation

Intraperiod tax allocation - tax allocation within a period

Interperiod tax allocation - tax allocation between periods

Intraperiod tax allocation

General rule -- the taxes should follow the location of income/loss

Wherever the profit and loss (P&L) item is shown, the tax effects should also be shown

- ☛ ordinary income
- ☛ extraordinary items
- ☛ cumulative effect of change in accounting principle
- ☛ prior period adjustments

Example

Income before taxes and extraordinary items	$100,000
Less: Applicable income taxes	41,500
Income before extraordinary items	$ 58,500
Extraordinary loss (see note 12), less applicable income tax effect of $14,400	15,600
Net income	$ 42,900

Interperiod tax allocation

☛ the objective in accounting for income taxes on an accrual basis is to recognize the amount of current and deferred taxes payable or refundable at the date of the financial statements.

Income Statement Format

Multiple Step

Name of Company
Income Statement
For the Year Ended December 31, 20x2

Sales		$ XX
Cost of goods sold		XX
Gross margin		XX
Selling expenses		XX
Administrative expenses		XX
Income from operations		XX
Other income and expenses		
Interest income	$ XX	
Interest expense	XX	
Dividend income	XX	
Infrequent or unusual gains	XX	
Infrequent or unusual losses	XX	XX
Income before income taxes, extraordinary and other items		XX
Income taxes		XX
Income before extraordinary and other items		XX
Extraordinary item (net of tax)		XX
Cumulative effect in prior years of retroactive application of accounting change (net of tax)		XX
Net income		$ XX

Earnings per share disclosures

Single Step

Name of Company
Income Statement
For the Year Ended December 31, 20x2

Sales	$ XX
Interest income	XX
Dividend income	XX
Infrequent or unusual gains	XX
Total revenues	XX
Cost of goods sold	XX
Selling expenses	XX
Administrative expenses	XX
Interest expense	XX
Infrequent or unusual losses	XX
Total expenses	XX
Income before income taxes, extraordinary and other items	XX
Income taxes	XX
Income before extraordinary and other items	XX
Extraordinary item (net of tax)	XX
Cumulative effect in prior years of retroactive application of accounting change (net of tax)	XX
Net income	$ XX

Earnings per share disclosures

Frequency of Different Income Statement Formats

	2006	2005	2004	2003
Single-step Form	82	105	110	133
Multiple-step Form	518	495	490	467
Total Companies	600	600	600	600

AMERICAN BRANDS, INC.

1996 ANNUAL REPORT

Consolidated Statement of Income

For years ended December 31 (In millions, except per share amounts)	1996	1995	1994
Net Sales	$11,579.3	$11,367.1	$13,146.5
Cost of products sold	2,882.2	3,109.9	3,765.1
Excise taxes on products sold	5,803.0	5,462.2	5,656.8
Advertising, selling, general and administrative expenses	1,698.5	1,665.3	2,385.8
Amortization of intangibles	107.4	95.1	96.3
Restructuring charges	88.8	17.8	---
Interest and related expense	178.7	159.8	212.1
Other (income) expenses, net	(3.6)	(16.8)	12.1
Gain on disposal of businesses, net	---	20.0	332.9
Income from continuing operations before income taxes	824.3	893.8	1,351.2
Income taxes	327.5	350.7	466.1
Income from continuing operations	496.8	543.1	885.1
Loss from discontinued operations	---	---	(151.0)
Extraordinary items	(10.3)	(2.7)	---
Net income	$ 486.5	$ 540.4	$ 734.1

AMERICAN BRANDS, INC.

1995 ANNUAL REPORT

Consolidated Statement of Income

For years ended December 31 (In millions, except per share amounts)	1995	1994	1993
Net Sales	$11,367.1	$13,146.5	$12,630.5
Cost of products sold	3,109.9	3,765.1	3,587.6
Excise taxes on products sold	5,462.2	5,656.8	5,413.9
	8,572.1	9,421.9	9,001.5
Gross Profit	2,795.0	3,724.6	3,629.0
Advertising, selling, general and administrative expenses	1,589.1	2,315.9	2,315.2
Amortization of intangibles	95.1	96.3	92.4
Restructuring charges	17.8	---	40.8
	1,702.0	2,412.2	2,448.4
Operating Income	1,093.0	1,312.4	1,180.6
Interest and related expense	159.8	212.1	227.6
Corporate administrative expenses	76.2	69.9	78.1
Other (income) expenses, net	(16.8)	12.1	(0.5)
	219.2	294.1	305.2
	873.8	1,018.3	875.4
Gain on disposal of businesses, net	20.0	332.9	---
Income from continuing operations before income taxes	893.8	1,351.2	875.4
Income taxes	350.7	466.1	334.2
Income From Continuing Operations Before Extraordinary Item and Cumulative Effect of Accounting Changes	543.1	885.1	541.2
Income (loss) from discontinued operations	---	(151.0)	127.0
Extraordinary item	(2.7)	---	---
Cumulative effect of accounting changes	---	---	(198.4)
Net Income	$ 540.4	$ 734.1	$ 469.8

Earnings Per Share (EPS)

EPS relates only to common stock

Basic Earnings Per Share Calculation

EPS = Income/Weighted average number of common shares outstanding

EPS amounts required to be shown either on face of income statement or in footnotes

- ☛ income before extraordinary and other items
- ☛ gain or loss on extraordinary items
- ☛ gain or loss from cumulative effect of an accounting change
- ☛ net income

Example

Income before extraordinary items	$100,000
Extraordinary loss (net of taxes)	20,000
Net income	$ 80,000

Shares of common stock outstanding	
January through March	10,000 shares
Sold 5,000 shares of common stock on April 1	
April through December	15,000 shares

Calculate required EPS disclosures

DEERE & COMPANY
October 31, 2009 10-K Report

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CAPITAL STOCK
On November 14, 2007, the stockholders of the company approved a two-for-one stock split effected in the form of a 100 percent stock dividend to stockholders of record on November 26, 2007, distributed on December 3, 2007. This stock split was recorded as of October 31, 2007 by a transfer of $268 million from retained earnings to common stock, representing a $1 par value for each additional share issued. The number of common shares the company is authorized to issue was also increased from 600 million to 1,200 million. The number of authorized preferred shares, none of which has been issued, remained at nine million.

MACHINETALKER, INC.
December 31, 2008 10-K Report

5. CAPITAL STOCK

In May 2009, the Company effected a five to one reverse split of its common stock. The financial statements have been retroactively restated for the effects of the stock split.