

PROJECTING AN INCOME STATEMENT

We will show how to develop a projected contribution income statement (in Case 1) and a projected traditional income statement (in Case 2) for two hypothetical firms:

Case 1

Sales for 1st month = \$60,000
Cost of sales = 42% of sales, all variable
Operating expenses = \$10,000 fixed plus 5% of sales
Taxes = 46% of net income
Sales increase by 5% each month

1. Based on this information, we will create a spreadsheet for the contribution income statement for the next 12 months and in total. This
2. We will do the same as above, assuming that sales increase by 10% and operating expenses = \$10,000 plus 10% of sales. This is an example of what-if analysis.

Case 2

Delta Gamma Company wishes to prepare a three-year projection of net income, using the following information:

1. The 1994 base year amounts are:

Sales revenues	\$4,500,000
Cost of sales	2,900,000
Selling and Administrative expenses	800,000
Net income before taxes	800,000

2. Use the following assumptions:

Sales revenues increase by 6% in 1995, 7% in 1996, and 8% in 1997.

Cost of sales increase by 5% each year.

Selling and administrative expenses increase only 1% in 1995 and will remain at the 1995 level thereafter.

The income tax rate = 46%