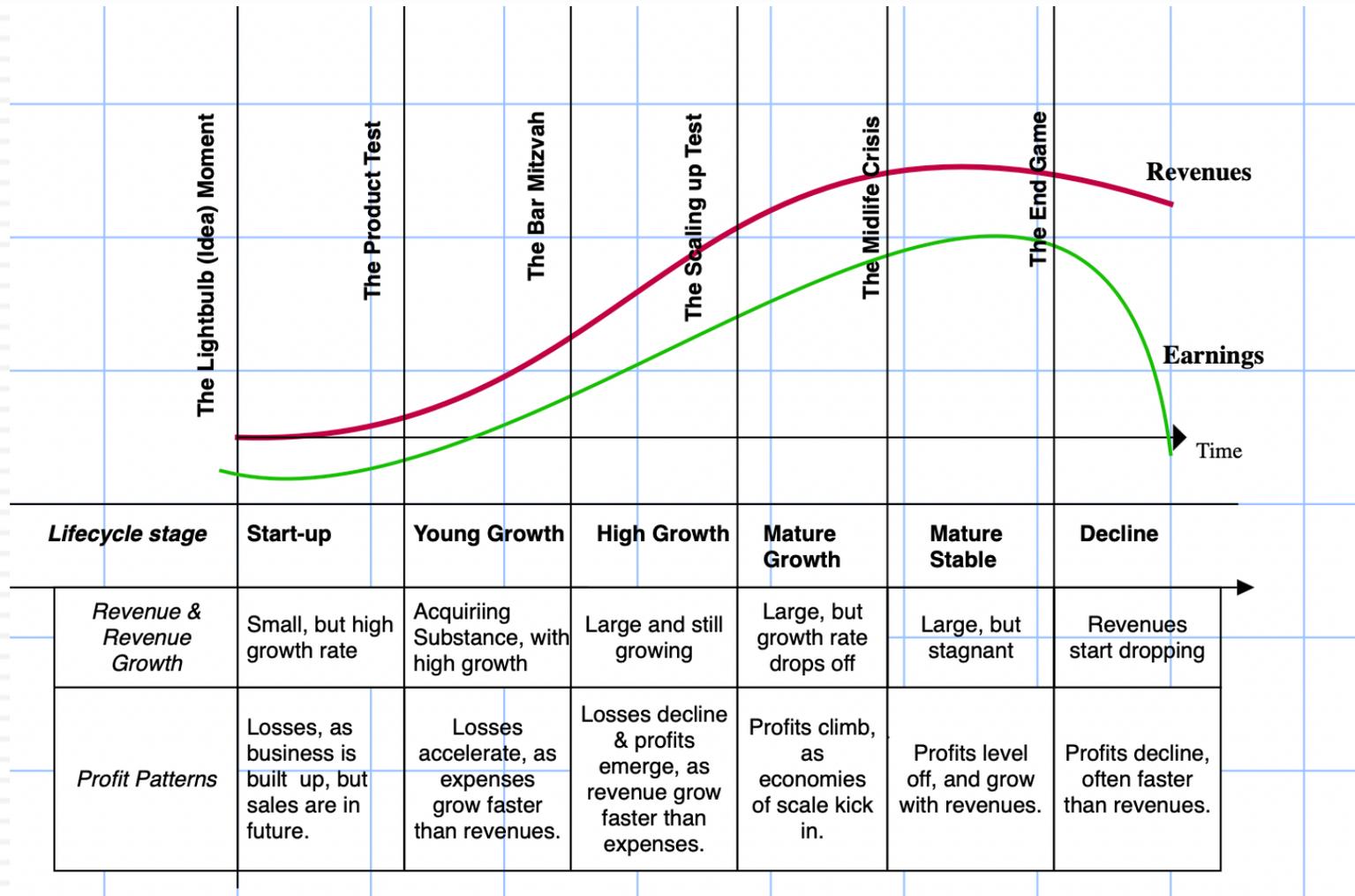




SESSION 2A: INCOME STATEMENT COMPARISONS

Accounting for Finance

Income Statement: A Life Cycle Perspective



A Young Company: Peloton's Income Statement (2019) in its Prospectus

PELOTON INTERACTIVE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in millions, except share and per share amounts)

	Fiscal Year Ended June 30,		
	2017	2018	2019
Revenue:			
Connected Fitness Products	\$ 183.5	\$ 348.6	\$ 719.2
Subscription	32.5	80.3	181.1
Other	2.6	6.2	14.7
Total revenue	218.6	435.0	915.0
Cost of revenue:			
Connected Fitness Products	113.5	195.0	410.8
Subscription	29.3	45.5	103.7
Other	1.9	4.9	17.0
Total cost of revenue	144.7	245.4	531.4
Gross profit	73.9	189.6	383.6
Operating expenses:			
Research and development	13.0	23.4	54.8
Sales and marketing	86.0	151.4	324.0
General and administrative	45.6	62.4	207.0
Total operating expenses	144.7	237.1	585.8
Loss from operations	(70.7)	(47.5)	(202.3)
Other (expense) income, net:			
Interest (expense) income, net	(0.3)	(0.3)	7.0
Other (expense) income, net	—	—	(0.3)
Total other (expense) income, net	(0.3)	(0.3)	6.7
Loss before provision for income taxes	(71.1)	(47.8)	(195.6)
Provision for income taxes	—	0.1	0.1
Net loss	\$ (71.1)	\$ (47.9)	\$ (195.6)
Net loss attributable to common stockholders	\$ (163.4)	\$ (47.9)	\$ (245.7)
Net loss per share attributable to common stockholders, basic and diluted	\$ (5.97)	\$ (2.18)	\$ (10.72)
Weighted-average common shares outstanding, basic and diluted	27,379,789	21,934,228	22,911,764
Pro forma net loss per share attributable to common stockholders, basic and diluted (unaudited)			\$ (0.84)
Pro forma weighted-average common shares outstanding, basic and diluted (unaudited)			233,552,393
Other comprehensive income:			
Change in unrealized gain (loss) on marketable securities	\$ —	\$ —	\$ 0.2
Total other comprehensive income	—	—	0.2
Comprehensive loss	\$ (71.1)	\$ (47.9)	\$ (195.4)

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A Growth Company: Netflix's Income Statement (2020)

NETFLIX, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

Year ended December 31,

	2019	2018	2017
1 Revenues	\$ 20,156,447	\$ 15,794,341	\$ 11,692,713
Cost of revenues	12,440,213	9,967,538	8,033,000
Marketing	2,652,462	2,369,469	1,436,281
Technology and development 2	1,545,149	1,221,814	953,710
General and administrative	914,369	630,294	431,043
Operating income	2,604,254	1,605,226	838,679
Other income (expense):			
Interest expense	(626,023)	(420,493)	(238,204)
Interest and other income (expense)	84,000	41,725	(115,154)
Income before income taxes	2,062,231	1,226,458	485,321
Provision for (benefit from) income taxes	195,315	15,216	(73,608)
Net income	\$ 1,866,916	\$ 1,211,242	\$ 558,929
Earnings per share:			
Basic	\$ 4.26	\$ 2.78	\$ 1.29
Diluted	\$ 4.13	\$ 2.68	\$ 1.25
Weighted-average common shares outstanding:			
Basic 3	437,799	435,374	431,885
Diluted	451,765	451,244	446,814

	Year ended December 31,		
	2019	2018	2017
Net income	\$ 1,866,916	\$ 1,211,242	\$ 558,929
Other comprehensive income (loss):			
Foreign currency translation adjustments	(3,939)	975	27,409
Change in unrealized gains (losses) on available-for-sale securities, net of tax of \$0, \$0, and \$378, respectively	—	—	599
Total other comprehensive income (loss)	(3,939)	975	28,008
Comprehensive income	\$ 1,862,977	\$ 1,212,217	\$ 586,937

A Mature Company: Coca Cola (2019)

Year Ended December 31,		2019	2018	2017
1	Net Operating Revenues	\$ 37,266	\$ 34,300	\$ 36,212
	Cost of goods sold	14,619	13,067	13,721
	Gross Profit	22,647	21,233	22,491
2	Selling, general and administrative expenses	12,103	11,002	12,834
	Other operating charges	458	1,079	1,902
	Operating Income	10,086	9,152	7,755
	Interest income	563	689	679
	Interest expense	946	950	853
3	Equity income (loss) — net	1,049	1,008	1,072
	Other income (loss) — net	34	(1,674)	(1,763)
	Income Before Income Taxes	10,786	8,225	6,890
	Income taxes	1,801	1,749	5,607
	Consolidated Net Income	8,985	6,476	1,283
	Less: Net income (loss) attributable to noncontrolling interests	65	42	35
	Net Income Attributable to Shareowners of The Coca-Cola Company	\$ 8,920	\$ 6,434	\$ 1,248
	Basic Net Income Per Share^d	\$ 2.09	\$ 1.51	\$ 0.29
	Diluted Net Income Per Share^d	\$ 2.07	\$ 1.50	\$ 0.29
	Average Shares Outstanding — Basic	4,276	4,259	4,272
	Effect of dilutive securities	38	40	52
	Average Shares Outstanding — Diluted	4,314	4,299	4,324

Revenue Breakdown for Coca Cola: By Geography

	1				2				
	Europe, Middle East & Africa	Latin America	North America	Asia Pacific	Global Ventures	Bottling Investments	Corporate	Eliminations	Consolidated
2019									
Net operating revenues:									
Third party	\$ 6,434	\$ 4,118	\$ 11,906	\$ 4,723	\$ 2,560	\$ 7,431	\$ 94	\$ —	\$ 37,266
Intersegment	624	—	9	604	2	9	—	(1,248)	—
Total net operating revenues	7,058	4,118	11,915	5,327	2,562	7,440	94	(1,248)	37,266
Operating income (loss)	3,551	2,375	2,594	2,282	334	358	(1,408)	—	10,086
Interest income	—	—	65	—	12	—	486	—	563
Interest expense	—	—	—	—	—	—	946	—	946
Depreciation and amortization	86	35	439	31	117	446	211	—	1,365
Equity income (loss) — net	35	(32)	(6)	11	(3)	836	208	—	1,049
Income (loss) before income taxes	3,361	2,288	2,592	2,310	343	716	(824)	—	10,786
Identifiable operating assets	8,143 ¹	1,801	17,687	2,060	7,265	11,170 ¹	18,376	—	66,502
Investments ²	543	716	358	224	14	14,093	3,931	—	19,879
Capital expenditures	108	140	392	47	209	836	322	—	2,054

An Aging Company: Toyota

Consolidated Statements of Income

(Yen in millions)

	FY2019 (For the year ended March 31, 2019)	FY2020 (For the year ended March 31, 2020)	Increase (Decrease)
Net revenues:			
Sales of products	28,105,338	27,759,749	(345,589)
Financing operations	2,120,343	2,170,243	49,900
Total net revenues	30,225,681	29,929,992	(295,689)
Costs and expenses:			
Cost of products sold	23,389,495	23,142,744	(246,751)
Cost of financing operations	1,392,290	1,379,620	(12,670)
Selling, general and administrative	2,976,351	2,964,759	(11,592)
Total costs and expenses	27,758,136	27,487,123	(271,013)
Operating income	2,467,545	2,442,869	(24,676)
Other income (expense):			
Interest and dividend income	225,495	232,870	7,375
Interest expense	(28,078)	(32,217)	(4,139)
Foreign exchange gain (loss), net	12,400	(79,020)	(91,420)
Unrealized gains (losses) on equity securities	(341,054)	(24,600)	316,454
Other income (loss), net	(50,843)	14,705	65,548
Total other income (expense)	(182,080)	111,738	293,818
Income before income taxes and equity in earnings of affiliated companies	2,285,465	2,554,607	269,142
Provision for income taxes	659,944	683,430	23,486
Equity in earnings of affiliated companies	360,066	271,152	(88,914)
Net income	1,965,587	2,142,529	176,942
Less – Net income attributable to noncontrolling interests	(102,714)	(66,146)	36,568
Net income attributable to Toyota Motor Corporation	1,862,873	2,076,383	213,510

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Sector and Industry Differences

- The accounting standards that govern how companies measure revenues and earnings may be the same across companies, but there are some sector-specific differences.
 - For commodity companies, the differences often arise from costs expended exploring for commodity reserves and extracting the commodity from reserves.
 - For financial service companies, the challenge often lies in defining revenues and debt, since the latter is less a source of capital and more raw material.

A Commodity Company: Total (France) in 2019

For the year ended December 31, (M\$)(a)		2019	2018	2017
Sales	(Notes 3, 4, 5)	200,316	209,363	171,493
Excise taxes	(Notes 3 & 5)	(24,067)	(25,257)	(22,394)
Revenues from sales	(Notes 3 & 5)	176,249	184,106	149,099
Purchases, net of inventory variation	(Note 5)	(116,221)	(125,816)	(99,411)
Other operating expenses	(Note 5)	(27,255)	(27,484)	(24,966)
Exploration costs	(Note 5)	(785)	(797)	(864)
Depreciation, depletion and impairment of tangible assets and mineral interests	(Note 5)	(15,731)	(13,992)	(16,103)
Other income	(Note 6)	1,163	1,838	3,811
Other expense	(Note 6)	(1,192)	(1,273)	(1,034)
Financial interest on debt		(2,333)	(1,933)	(1,396)
Financial income and expense from cash & cash equivalents		(19)	(188)	(138)
Cost of net debt	(Note 15)	(2,352)	(2,121)	(1,534)
Other financial income	(Note 6)	792	1,120	957
Other financial expense	(Note 6)	(764)	(685)	(642)
Net income (loss) from equity affiliates	(Note 8)	3,406	3,170	2,015
Income taxes	(Note 11)	(5,872)	(6,516)	(3,029)
CONSOLIDATED NET INCOME		11,438	11,550	8,299
Group share		11,267	11,446	8,631
Non-controlling interests		171	104	(332)
Earnings per share (\$)		4.20	4.27	3.36
Fully-diluted earnings per share (\$)		4.17	4.24	3.34

(a) Except for per share amounts.

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A Business Breakdown for Total

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For the year ended December 31, 2019 (M\$)	Integrated Gas, Renewables & Power					Intercompany	Total
	Exploration & Production	Renewables & Power	Refining & Chemicals	Marketing & Services	Corporate		
Non-Group sales	7,201	16,107	67,596	67,260	10	–	200,316
Intersegment sales	31,329	2,825	32,390	659	125	(67,328)	–
Excise taxes	–	–	(3,015)	(21,052)	–	–	(24,067)
REVENUES FROM SALES	38,590	20,992	116,973	66,887	135	(67,328)	176,249
Operating expenses	(16,389)	(18,316)	(112,104)	(63,855)	(925)	67,328	(144,261)
Depreciation, depletion and impairment of tangible assets and mineral interests	(11,659)	(1,492)	(1,527)	(980)	(73)	–	(15,731)
OPERATING INCOME	10,542	1,184	3,342	2,052	(863)	–	16,257
Net income (loss) from equity affiliates and other items	610	2,330	322	101	42	–	3,405
Tax on net operating income	(4,572)	(741)	(470)	(598)	155	–	(6,226)
NET OPERATING INCOME	6,580	2,773	3,194	1,555	(666)	–	13,436
Net cost of net debt							(1,998)
Non-controlling interests							(171)
NET INCOME – GROUP SHARE							11,267

A Financial Service Company: HSBC in 2019

Consolidated income statement for the year ended 31 December

	Notes*	2019 \$m	2018 \$m	2017 \$m
1				
Net interest income		30,462	30,489	28,176
– interest income ^{1,2}		54,695	49,609	40,995
– interest expense ³		(24,233)	(19,120)	(12,819)
Net fee income	2	12,023	12,620	12,811
– fee income		15,439	16,044	15,853
– fee expense		(3,416)	(3,424)	(3,042)
Income from trading or managed on a fair value basis	3	10,231	9,531	8,426
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	3	3,478	(1,488)	2,836
Changes in fair value of designated debt and related derivatives ⁴	3	90	(97)	155
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	3	812	695	N/A
Gains less losses from financial investments		335	218	1,150
Net insurance premium income	4	10,636	10,659	9,779
2				
Total operating income		2,957	960	443
Net operating income before change in expected credit losses and other credit impairment charges/Loan impairment charges and other credit risk provisions	4	71,024	63,587	63,776
3				
Change in expected credit losses and other credit impairment charges		(14,926)	(9,807)	(12,331)
Loan impairment charges and other credit risk provisions		56,098	53,780	51,445
Net operating income		(2,756)	(1,767)	N/A
Employee compensation and benefits	5	N/A	N/A	(1,769)
General and administrative expenses		53,342	52,013	49,676
Depreciation and impairment of property, plant and equipment and right-of-use assets ⁵		(18,002)	(17,373)	(17,315)
Depreciation and impairment of intangible assets		(13,828)	(15,353)	(15,707)
Goodwill impairment	21	(2,100)	(1,119)	(1,166)
4				
Total non-operating expenses		(7,349)	(814)	(696)
Operating profit		(42,349)	(34,659)	(34,884)
Share of profit in associates and joint ventures	18	10,993	17,354	14,792
Profit before tax		2,354	2,536	2,375
Tax expense	7	13,347	19,890	17,167
Profit for the year		(4,639)	(4,865)	(5,288)
Attributable to:		8,708	15,025	11,879
– ordinary shareholders of the parent company		5,969	12,608	9,683
– preference shareholders of the parent company		90	90	90
– other equity holders		1,324	1,029	1,025
– non-controlling interests		1,325	1,298	1,081
Profit for the year		8,708	15,025	11,879
		\$	\$	\$
Basic earnings per ordinary share	9	0.30	0.63	0.48
Diluted earnings per ordinary share	9	0.30	0.63	0.48

A Pharmaceutical Firm: Dr. Reddy's in 2019

(All amounts in Indian Rupees millions, except share data and where otherwise stated)

Particulars	Note	For the year ended 31 March 2020	For the year ended 31 March 2019
Income			
Sales	2.12	109,925	104,667
Service income and License fees	2.12	8,105	1,062
Other operating income	2.13	474	526
Total revenue from operations		118,504	106,255
Other income	2.14	7,432	2,384
Total income		125,936	108,639
Expenses			
Cost of materials consumed		25,565	21,032
Purchase of stock-in-trade		11,172	8,686
Changes in inventories of finished goods, work-in-progress and stock-in-trade	2.15	(999)	660
Employee benefits expense	2.16	20,302	19,319
Depreciation and amortisation expense	2.17	7,892	7,806
	2.18	478	568
Selling and other expenses	2.19	33,768	33,561
		98,178	91,632
Profit before tax		27,758	17,007
Tax expense/(benefit)	2.26		
Current tax		4,839	2,818
Deferred tax		(6,458)	1,416
Profit for the year		29,377	12,773
Other comprehensive income (OCI)			
Items that will not be reclassified subsequently to profit or loss		88	(1)
Income tax on items that will not be reclassified subsequently to profit or loss		(33)	3
		55	2
Items that will be reclassified subsequently to profit or loss		(750)	209
Income tax on items that will be reclassified subsequently to profit or loss		259	(73)
		(491)	136
Total other comprehensive income/(loss) for the year, net of tax		(436)	138
Total comprehensive income for the year		28,941	12,911
Earnings per share:			
Basic earnings per share of ₹ 5/- each	2.22	177.23	76.98
Diluted earnings per share of ₹ 5/- each		176.88	76.85

The accompanying notes are an integral part of the financial statements.

Bottom Line

- Much is made of the differences in accounting standards around the world and across businesses, but the reality is that accounting standards are converging across the world, rather than diverging.
- While revenues come in different forms for different companies and operating expenses take varied forms, the end game with gross profit, operating and net income remains the same, i.e., to measure profits are different levels.
- In theory, you should be therefore able to compare these numbers across companies, but in practice, accounting inconsistencies in how the expenses get measured and categorized can create problems.