

# Income Statement

Revenues, Operating Expenses,  
Depreciation, and Income Taxes



# WHAT IS IT?

- Same as Profit and Loss Account
- Report of operations summarizing the revenues, expenses, and income attributed to a specific period



# HOW ARE REVENUES SHOWN?

Revenues:

- Activation
- Installation
- Airtime (Voice/Data)-Pre/Post Paid
- Value Added (by class of business) etc
- Uncollectibles
- = Total Revenue



# INCOME STATEMENT

Operating Revenues

Purchase Expense

Operating Expense

Maintenance Expense

Depreciation Expense

Amortization Expense

Taxes Other than Income Taxes

Income Taxes

Provision for Deferred Income Taxes

Total Utility Operating Expenses

**NET OPERATING INCOME**



# INCOME STATEMENT (CONT.)

Net Operating Income

Other Income and Deductions

Interest Charges

NET INCOME



# HOW ARE EXPENSES SHOWN?

- Network Support Expense
- + General Support Expense
- + Central Office Switching
- + Operator Systems
- + Central Office Transmission
- + Information Origination/Termination
- + Cable and Wire Facilities
- + Other Plant and Equipment Expense
- + Network Operations Expense
- = Subtotal of Direct Expenses



# HOW ARE EXPENSES SHOWN?

Subtotal from Prior Slide

- + Access Expense
- + Depreciation and Amortization
- + Marketing
- + Customer Operations
- + Executive Planning
- + General and Administrative
- = Total Operating Expenses



# TOTAL NET INCOME

Operating Revenues

- Operating Expense

= *Utility Operating Income*

+ Other Operating Income/Expense

- Operating Taxes

+ Non-operating income/expenses

- Non-operating taxes

- Interest and Related Items

- /+ Extraordinary Items

+ Non regulated Net Income

= *Total Net Income*





# OPERATING REVENUES

- When analyzing revenues, trending is an important tool -- whether looking at a series of historical months or years.
- Is the growth in revenue consistent with growth in the plant and expenses?
- Are past rate changes reflected in the data?
  - Did a change occur in the rate midyear, such that the annualized view of the change is not reflected in the historical data?






# OPERATING REVENUES DETAILS

- Monthly Access Charges
- Subscription
- Airtime
- Roaming
- Connection and SIM sales
- Terminal Equipment



# OPERATING REVENUES

-  Interconnection
-  Miscellaneous
-  Repairs etc



# DIRECT EXPENSES/COST OF SALES

- Interconnection
- Security
- Transmission
- Power
- License fee
- Management Contract
- Connection and SIM Card



# DIRECT EXPENSE

- Bandwidth
- Installation
- Recharge Cards
- Roaming
- Customer Terminal Equipment
- Sales Commission



# OPERATING EXPENSES

- Bad Debts
- Salaries and Wages
- Legal and Professional
- Outsourcing
- Public Relations
- Lease
- Rent



# OPERATING EXPENSES

- Insurance
- Repairs and Maintenance
- Printing & Stationery
- Advertising & Marketing
- Billing & Collection
- Directors' Fees
- Other General and Administrative



# OPERATING REVENUES

## Uncollectibles

- What determines if an account is uncollectible?
- What attempts are made to recover the funds?
- What is the actual write-off for the year, versus the amount being accrued for uncollectible revenues?
- Is the pattern of uncollectibles stable or unusual?





# OPERATING EXPENSE

## Pensions

- Generally based on actuarial determinations of the required funding needs.
- Accounting standards require that they be accounted for on an accrual rather than on a cash basis.
  - Cost of employee's pension is recognized over that employee's approximate service life, rather than based on the amount the employer decides to contribute to that plan for any particular period.
  - Requires immediate recognition of a liability when the accumulated benefit obligation exceeds the fair value of the plan assets.



# DEPRECIATION

## Depreciation Expense

- The periodic allocation of the cost of a tangible long-lived asset over its estimated useful life (in a systematic and rational manner)

## Amortization Expense

- The periodic allocation of the cost of an intangible asset over its useful life



# DEPRECIATION

- Estimated Useful Life

- Physical Deterioration
- Obsolescence

- Salvage Value

- Cost of Removal



# DEPRECIATION

## • Straight Line Methods

- Spread Evenly Over the Life of the Asset
- Based Solely on Use (and not time)

## • Accelerated Methods

- Front end loaded so that most of the depreciation is recorded in the earlier years of the asset

## • Other

- Example: tied to the debt payments associated with the asset



# DEPRECIATION

- Accounting for Asset Retirement Obligations
  - If a company has a legal obligation to incur costs to remove an asset at its retirement, the net present value of those costs is part of the ultimate cost of the asset and should be recovered in charges to depreciation expense over the life of the asst.
  - For those assets for which there is a legal obligation of removal, a liability is recorded at fair value.
  - Each accounting period, the liability is increased to its present value. The asset is also increased to reflect the asset retirement obligation, and this is depreciated over the life of the associated tangible asset.



# OTHER INCOME

- Other operating income and expenses



# INCOME TAXES

## • Deferred Income Taxes

- Arise when income tax amounts provided for book purposes differ from the amount of taxes currently due and payable.
- Primary cause of the tax differences is the straight-line depreciation rates used for ratemaking versus the accelerated deprecation rates used for federal and state income tax purposes
  - Could be other reasons for the difference, too
  - Example: certain items allowed to be deducted as business expenses for financial purposes but not for tax computation
- Causes higher depreciation expense for tax purposes, causing less tax to be paid to the government than are included in rates, the early years (situation reverses in later years)




# INCOME TAXES

## Deferred Income Taxes (Cont.)

- The accumulated difference becomes a source of interest-free funds, provided by ratepayers, not investors.
  - The benefits derived from this situation are generally required to be spread over the economic life of the asset.





# NON OPERATING INCOME & EXPENSES

- Non operating taxes
- Dividend
- Interest Income



# EXTRAORDINARY ITEMS

- Tax effect
- Noncustomary and infrequently gains and/or losses which can significantly distort the current year's income computed before such extraordinary items, if reported other than as extraordinary items.



DISCUSSION



QUESTIONS