



Received: 08-08-2023  
Accepted: 18-10-2023

ISSN: 2583-049X

## **Income Statement for the Provision of Information for Information Users' Evaluation and Forecasting**

**Vu Thi Kim Duong**

University of Labour and Social Affairs, Hanoi, Vietnam

Corresponding Author: **Vu Thi Kim Duong**

### **Abstract**

An income statement is a report that shows an enterprise's operating performance for a specific time period. The income statement is separated into multiple components based on the nature of income and expenses to help information users analyze the business's performance. The Ministry of Finance's Circular 200/2014/TT-BTC "Guidance on corporate accounting regime" dated December 22, 12, 2014, made several changes to financial statements in general and income statements in particular. Income statements are crucial in financial reporting because they help information users make decisions. However, the

information on the income statement does not accurately reflect the nature of the event, making it difficult for information consumers to analyze the current position and forecast the business's future earnings. The study introduces the notion of income reporting, the consequences of income statements, and the classification of intermediate components of income statements that influence the use of income statement data. At the same time, the study provides an overview of the current state of income reporting in Vietnam as well as solutions for completing income reporting in Vietnam.

**Keywords:** Income Statement, Revenues, Expenses, Operating Section, Nonoperating Section, Discontinued Operations, Extraordinary Items

### **1. Theoretical Basis of Income Statement**

An income statement is a report that shows the company's results over a specific time period. Income statements are used by businesses and investors to calculate profitability, investment value, and creditworthiness. It provides information to investors and creditors to assist them in forecasting the quantity, timing, and uncertainty of future cash flows. To effectively analyze the profitability of the business, investors want thorough and comparable information on the income statement and its components.

#### **Effects of Income Statements**

*First, income reports assist information users in evaluating the business's previous activity.* The income statement reflects the information made by the enterprise in a period, so the information about revenue and expenses allows for evaluation of the enterprise's results of operations and allows a comparison of the enterprise's performance compared to previous periods and other businesses.

*Second, the information on the income statement serves as a foundation for forecasting future performance, assisting in identifying the risks and uncertainties associated with generating future cash flows.* Information about past activities helps identify future performance trends if a reasonable correlation exists between past and future performance. At the same time, data on the various components of income, such as sales, expenses, and profit/loss, clearly illustrates the linkages between them. It also aids in assessing the risk of failing to achieve separate cash flow levels in the future.

The impact of the income statement on analyzing and forecasting is determined by how the income statement is presented, and if the income statement is broken into components based on the type of the originating event. The impact of the income statement on analyzing and forecasting is determined by how the income statement is presented, and if the income statement is broken into components based on the type of the originating event.

#### **Intermediate Components of the Income Statement**

The income statement displays the enterprise's operating performance for a period; hence the key sections of the income

statement must reflect the business's revenue, expenses, and profit/loss. However, how the above components are classified into intermediate groupings is determined by how the enterprise's activity is classified into specific sorts of activities. The report can further segment income by client, product line, and so on.

According to Kieso Weygandt Warfield's *Intermediate Accounting - 15th Edition*, which presents income statements based on the classification of income by the nature of operations, the income statement consists of Operating section, nonoperating section (không thường xuyên), discontinued operations, and extraordinary Items.

*Operating section:* Revenues and expenses from the enterprise's major activities are presented. This part includes revenue from sales, cost of products sold, cost of sales, and business management expenses.

*Nonoperating section:* Revenues and expenses resulting from the company's secondary or supplementary activities are presented. In addition, special, irregular, or unusual gains and losses are often reported in this section. Irregular activities are those that occur seldom and are not remarkable in comparison to the enterprise's core activity. Irregular items should be recorded separately to assist users in predicting the quantity, timing, and uncertainty of future cash flows because infrequent items may exist in one quarter but not in the next. As a result, it only affects earnings in this period, and knowledge about irregular operating income cannot be used to forecast future results.

*Discontinued operations:* Profit or loss resulting from the cessation of a business component. When a corporation discontinues some of its operations, this is referred to as activity shutdown.

*Extraordinary Items:* The abnormal item reflects unusual and irregular Profits and Losses. Unusual items are goods that occur seldom and have specific characteristics that differ from the company's primary commercial operations. When deciding whether an item is abnormal, the company must consider its operating environment. Unusual occurrences are events and transactions that are notable for their odd nature and infrequency. To be classified as an anomaly, an occurrence or transaction must match both of the following criteria: "(a) *Unusual nature. The underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the company, taking into account the environment in which it operates.* (b) *Infrequency of occurrence. The underlying event or transaction should be of a type that the company does not reasonably expect to recur in the foreseeable future, taking into account the environment in which the company operates*" (10- Kieso Weygandt Warfield).

In addition, the income statement includes a number of other items such as income tax, non-controlling shareholder interests, interest on shares, and so on. Depending on the goal of arranging the indicators in the report, these items can be reflected in various places.

## 2. Research Methods

To assess the current state of income reporting in Vietnam, the study employs a small portion of quantitative research methods such as analyzing, thinking, and synthesizing data from articles, books, and documents related to income reporting, as well as qualitative research methods used in articles. The study uses comparative and synthetic

methodologies to examine Vietnam's income statements and income reports based on the information demands of users, to assess the current situation of income reports in accordance with Vietnamese rules, and to provide relevant solutions.

## 3. Actual Situation

### *Current Status of Income Statement According to Circular 200/2014/TT-BTC*

The main purpose of financial accounting is to provide information to information users who are people outside the business. Information users will make assessments, comments, and projections of the enterprise's financial status based on information provided by enterprises through the financial reporting system, allowing them to make appropriate decisions. The income statement (also known as income statement) is an important part of the financial reporting system since it helps information users make decisions. Business results report in accordance with Circular 200/2014/TT-BTC, representing the enterprise's business status and results. The report is divided into two components: production and business activities, and other enterprise operations.

*Production and business activities:* This section presents revenue from sales of merchandise and services rendered, revenue deductions, net revenue from sales of merchandise and services rendered, costs of goods sold, gross profit from sales of merchandise and services rendered, revenue from financing activity, financial expenses, selling expenses, general administration expenses, net profit from operating activity.

*Section on Other Activities:* This includes other income, other expenses and other profit.

In addition, the circular business results report 200/2014/TT-BTC also presents the indicators of total accounting profit before tax, current corporate income tax expense, deferred corporate income tax expense, profit after corporate income tax, basic earnings per share, and diluted earnings per share.

Thus, according to Circular 200/2014/TT-BTC, Vietnam's revenue statement simply classifies activities into production and commercial activities and other activities, but does not individually indicate discontinued, irregular, and abnormal activities. As a result, income statements that do not guarantee the provision of financial information must be appropriate to assist financial statement users in forecasting, analyzing, and making economic decisions. Also, according to circular 200/2014/TT-BTC, costs and revenues of irregular, discontinued, and abnormal activities are generally reflected in production and business activities and other activities. For example, restructuring costs are always reflected in enterprise management costs in production and business activities; revenue and expenses arising from exchange rate differences are reflected in financial operating revenues or financial operating expenses. Regardless of whether the activity is regular or irregular, of an unusual nature or not. Furthermore, according to circular 200/2014/TT-BTC, the entire cost and revenue of anomalous activities... are included in other activities, and the circular does not provide for the cessation of operations.

## 4. Income Statement Completion Solutions

Income statement containing useful information for decision-makers. Income statement information provides

users with information to assess the enterprise's income-generating condition. As a result, the report should include data on revenue, expenses, and profit/loss in the nature of those aspects. Currently, the income statement does not classify activities in the income statement appropriately according to the provisions of Circular 200/2014 / TT-BTC; thus, in order to ensure the provision of complete and appropriate information, assisting information users in accurately assessing the profit of enterprises, Vietnam's income statement must implement the following solutions: Firstly, the income statement should be divided by items depending on the nature of the activities. The income statement should be separated into four sections: Activity, Irregular, Discontinued Activity, and Abnormal. The segmentation of the Income Statement based on the operating nature of the income has various implications for analyzing the business's success. First of all, the separation of the activity part is a separate item that helps information users evaluate the regular activities of the business. This will be the foundation for projecting future company results because users of information must base their predictions on revenue, expenses, and profit and loss from regular operations in order to forecast the business's future financial condition. Because irregular, shutdown, and abnormal activities are not the main and regular activities of the enterprise, they may occur in one period but are unlikely to occur in the next, so they should be separated into separate sections for evaluating the effectiveness of the enterprise' main and regular activities in the current period, predicting future results, and comparing ability with other businesses. Second, the government should provide detailed guidelines on how to calculate the revenue and expenses for each component of the income statement. Users are frequently interested in the Activity Section because the income, expenses, and profit/loss in the Operating Part are indicative of future revenue, and regular and recurrent expenses. As a result, firms sometimes include revenues and expenses in other aspects of operations for various purposes. The features of each enterprise's operation determine the determination of revenue and expenses in which portion of the income statement they go. As a result, adopting rules for evaluating and categorizing items of report components improves transparency and comparability for income statements.

## 5. Conclusion

It is critical to identify what constitutes income and which components are reflected. To help information users grasp the type, form, and hazards of events, as well as evaluate and predict in order to make appropriate decisions, information should be provided for the aim of giving information to information users for decision-making. As a result, the income statement must be divided into activity items, irregular items, abnormal items, and cease activity items. At the same time, it is vital to designate which occurring event will be reported in order to portray the genuine nature of the event while also providing information users with the ability to assess and predict the enterprise's future financial status. Furthermore, the execution of income statements must be uniform across firms to maintain relevance and comparison, therefore defining a framework for the income statement components is critical to ensuring usable information. However, while designing income reporting laws, it should be emphasized that identifying

whether an item is an activity, uncommon, or irregular needs judgment. This can result in disparities in income reporting techniques between various businesses.

## 6. References

1. Bauwhede HV. What Factors Influence Financial Statement Quality? A Framework and Some Empirical Evidence, The Euroconference on Financial Reporting and Regulatory Practices in Europe, Palermo, Italy, May 20-23, 2001.
2. Churet C, Eccles RG. Integrated reporting, quality of management, and financial performance. *J. Appl. Corp. Finance.* 2014; 26(1):56-64.
3. Circular No. 155/2015/TT-BTC, dated October 6, 2015, titled Guidance on stock market disclosure.
4. Circular 200/2014/TT-BTC dated December 22, 12, 2014 of the Ministry of Finance Guidance on corporate accounting regime.
5. Dulewicz V, Herbert P. Does the composition and practice of boards and directors bear any relationship to the performance of the companies? *Corporate Governance.* 2004; 12(3):263-280.
6. Financial Accounting Standards Board, Statement of Financial Accounting Concepts No. 2, Qualitative Characteristics of Accounting Information, Original Pronouncements, Accounting Standards as of June 1, Financial Accounting Standards Board, CN, USA. 1993; 2.
7. Fishbein M, Aizen I. *Belief, Attitude, Intention and Behavior: An Introduction to Theory and Research.* Reading, MA: Addison-Wesley, 1975.
8. Gareth Owen. *Integrated Reporting: A Review of Developments and their Implications for the Accounting Curriculum, Accounting Education,* 2013. ISSN: 0963-9284.
9. IASB. *Conceptual Framework for Financial Reporting 2010,* IFRS Foundation, 2010.
10. Kieso Weygandt Warfield. *Intermediate Accounting-15th Edition.*
11. Li M, Ye L. Information technology and firm performance: Linking with environmental, Strategic and managerial context, *Information Management.* 1999; 35(1):43-52.
12. Miller BW. *Quality Financial Reporting, Accountancy,* (April), 2002, 70-75.