

Synandre Montaque is the CEO of Montaque Corporation. The company recently held a webcast to announce preliminary results for the year ending December 31, 20X5. The webcast began with an opening statement by Synandre, followed by a question and answer session from analysts and investors who utilized a call-in Q&A phone line. Following is the transcript of the session:

Synandre Ladies and gentleman, thank you for participating today. There has been recent speculation that Montaque Corporation's 20X5 reported results will fall short of previously announced guidance. I wish to allay that fear by today offering some preliminary information about 20X5's results. Our official results will be released on February 19, when our independent auditors issue their final report.

Synandre With that having been said, I am very pleased that we will be reporting record gross sales of \$5,675,000,000 for the reporting period. Our gross profit margin continues at a very favorable 44%, and our bottom line net income will equal the targeted 4% of net sales goal. With that good news, I will be pleased to answer your questions.

Caller #1 Congratulations on those very good results. I did note that you referred to gross sales as record-setting. But, there have been reports of product failures resulting in a very high rate of return. Can you respond to that issue?

Synandre That is very plainly bunk; a rumor being spread by our competition. We continue to gain market share across all areas. Our sales returns and allowances will come in at only 3% of gross sales. Now, to be clear, we did offer improved credit terms to our key customers this year, and our sales discounts will amount to 1.5% of gross sales.

Caller #2 You began the year with inventory of \$425,000,000, and indicated that you desired to trim that level. Did you accomplish that goal?

Synandre No. I am sorry to report that business conditions have required us to further increase our inventory levels by 30%. However, this has resulted, we believe, in improved customer satisfaction with our product availability.

Caller #3 Your competitors have reported significant increases in freight costs. Did you experience similar problems?

Synandre We have been very fortunate to negotiate favorable terms on purchases. Our freight-in cost of \$55,000,000 was more than offset by purchase discounts of \$34,444,000 and purchase returns and allowances of \$61,225,000.

Caller #4 How have recent tax law changes impacted the company?

Synandre While tax law changes have been grabbing headlines, our global tax strategy remains intact, and our total tax expense for the year will be at the \$100,000,000 level.

Caller #5 You have yet to comment on SG&A. Can you give those numbers some color?

- Synandre I really cannot give you the specifics just yet, but I can give you some general guidance. First, as you know, we carefully control SG&A. Our historic pattern shows that that our total operating expenses break down as 60% selling, 35% general and administrative, and 5% interest cost. We will match this historic pattern, even though we spent \$250,710,000 on advertising. The other selling expense categories of salaries / depreciation / utilities will allocate on a 60 / 10 / 30 ratio.
- Caller #6 You are losing me here . . . I follow your selling expense, but how about general and administrative costs?
- Synandre Ok, you guys are really pressing me for the details. All I can tell you at this point is that the general and administrative costs will consist of three categories: salaries / depreciation / utilities. These will allocate out on a 50 / 30 / 20 basis. I cannot yet give you the specific amounts. With that, it is time to close this webcast. Thank you for your attention. We look forward to providing you with detailed income statements in the next few weeks. Good day.

Assume you are a financial analyst. Your assignment is to review the above transcript and prepare a report for your clients that includes a preliminary view of how you think the income statement will appear, when issued. Prepare both a multiple-step and single-step income statement for their review.