

Income Statements

- Financial statement that shows a business' _____ (or _____) over a stated period of time – week, month, quarter, year
- **Revenue** – money, or the promise of money, received from the sales of goods or services
- **Expenses** - expenditures that help a business generate revenue.
- Income Statements can be prepared to track daily, monthly or quarterly profit
- Businesses are required by law to prepare an Income Statement at the end of every fiscal year

Steps to Prepare an Income Statement

1. Fill in the _____
 - Who? (Name of individual, business or organization)
 - What? (Name of the financial statement)
 - When? (Date on which the financial position is made)
2. Organize the _____ Section
 - The money, or the promise of money, received from the sale of goods or services is called REVENUE
 - All sources of revenue should be listed
3. Organize the _____ Section
 - **OPERATING EXPENSES** are the costs of operating the business; used to help generate revenue
 - Ex: salaries, advertising, maintenance, and utilities
 - **MATCHING PRINCIPLE:** All the costs of doing business in a particular time period are matched with the revenue generated during the same period.
4. Calculate _____ OR _____
 - Use the information from steps 2 and 3 (and the equation for calculating profit) to determine a NET INCOME or NET LOSS

Total Revenue – Total Expenses = Net Income
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- **Net income** occurs when revenues > expenses
- **Net loss** occurs when revenues < expenses

Retail Businesses

Cost of Goods Sold (COGS)

- value of the **inventory** sold **during** the given period – Used for a retail business

Revenue – Cost of Goods Sold = Gross Profit
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Gross Profit – Expenses = Net Income

- **Gross Profit:** \$ left over before deducting expense, if no expenses GROSS PROFIT = NET INCOME

Owner's Equity Account

- Net profit is calculated first then transferred to the **balance sheet** as part of owner's equity
- Creditors and owners have claims on the assets of the business

Example

Cost of Goods Sold for Jackson’s Cleaning and Shoe Cleaning and Shoe Store Fiscal year runs Jan 1 – Dec 31

- Inventory on hand at Jan 1st: \$10 000
- Purchases throughout the year total: \$8 000
- Inventory on hand at Dec 31st: \$7 000

Cost of Goods Sold Calculation	
Beginning Inventory	\$10 000
+Purchases	<u>8 000</u>
= Cost of Goods Available for Sale	18 000
-Ending Inventory	<u>7 000</u>
=Cost of Goods Sold	\$11 000

SERVICE Income Statement – No Inventory

Jackson’s Shoe Cleaning Company Income Statement Year Ending December 31, 2014		
Revenue		
Sales	\$150,000	
Total Revenue		<u>\$ 150,000</u>
Expenses		
Rent Expense	\$ 10,000	
Salaries Expense	10,000	
Supplies Expense	5,000	
Total Expenses		<u>(25,000)</u>
Net Income		<u>\$ 125,000</u>

List all Revenue

Statement Headings
• Who
• What
• When

\$ sign at the start of each column

\$ sign at the start of each column

List Expenses

\$ sign on the end total, double underline

RETAIL Income Statement Example – Inventory

Jackson’s Shoe Cleaning and Shoe Store Income Statement Year Ending December 31, 2014		
Revenue		
Sales Revenue		\$ 150,000
Cost of Goods Sold		
Beginning Inventory, January 1, 2014	\$ 10,000	
Purchases	<u>8,000</u>	
Cost of Goods Available for Sale	18,000	
Ending Inventory, December 31, 2014	<u>(7,000)</u>	
Cost of Goods Sold		<u>(11,000)</u>
Gross Profit		\$ 139,000
Expenses		
Rent Expense	\$ 10,000	
Salaries Expense	10,000	
Supplies Expense	<u>5,000</u>	
Total Expenses		<u>(25,000)</u>
Net Income		<u>\$ 114,000</u>

List all Revenue

Statement Headings
• Who
• What
• When

Insert Cost of Goods Sold (Retail Business)

\$ sign at the start of each column

List Expenses

\$ sign on the end total,

