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

- 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

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

BBI2O – Chapter 9: Accounting

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

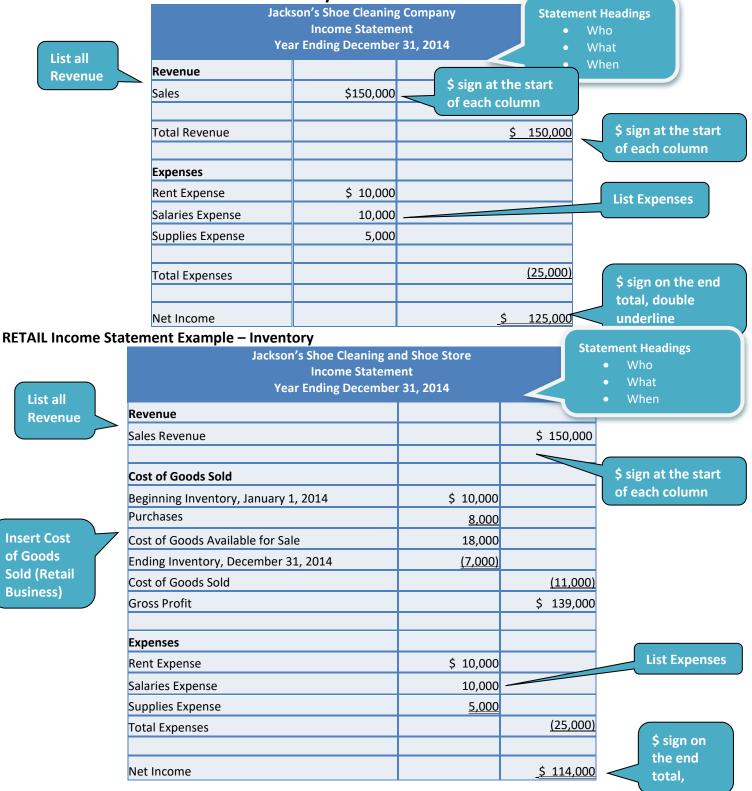
SERVICE Income Statement – No Inventory

+Purchases = Cost of Goods Available for Sale -Ending Inventory

Beginning Inventory

Cost of Goods Sold Calculation

=Cost of Goods Sold



Name:

\$10 000

8 000

18 000

7 000

\$11 000

Income Statement Practice

Question 1

Prepare an income statement for the **month** ended Dec 31 2014, using the following information. The business is Venables Inc and it is a **retail** business. Sales Revenue is \$90 000, Inventory Dec 1, 2014 is \$30 000, Purchases of inventory was \$10 000, Inventory Dec 31, 2014 is \$21 000, Salary Expense \$6 000, Rent Expense \$2 200, Utilities Expense \$1 150, Advertising Expense \$875, Supplies Expense \$175.

<u>Revenues</u>		
Cost of Goods Sold		
Operating Expenses		

Question 2

John is trying to create an income statement for his dad. His dad has given him a sheet with a lot of financial items on them. There are some assets, liabilities, revenues and expenses on this sheet. Pick out the items that are necessary to create an income statement (you don't need them all!) and create one. The business name is Smith Inc and the **fiscal year** ends on July 3, 2012.

Sales Revenue \$100 000 Cash \$10 000 Accounts Receivable \$30 000 Inventory July 4, 2011 \$60 000 Purchases \$80 000 Inventory July 3, 2012 \$10 000 Salary Expense \$100 000 Mortgage Payable \$140 000 Rent Expense \$50 000 Bank Loan \$8 000 Advertising Expense \$5 000 Supplies Expense \$10 000

<u>Revenues</u>		
Cost of Goods Sold		
Operating Expenses		