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Income Statements

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Income Statements

An income statement, otherwise known as a profit and loss statement, is a summary of a company's profit or loss during any one given period of time, such as a month, three months, or one year. The income statement records all revenues for a business during this given period, as well as the operating expenses for the business.

What are income statements used for?

You use an income statement to track revenues and expenses so that you can determine the operating performance of your business over a period of time. Small business owners use these statements to find out what areas of their business are over budget or under budget. Specific items that are causing unexpected expenditures can be pinpointed, such as phone, fax, mail, or supply expenses. Income statements can also track dramatic increases in product returns or cost of goods sold as a percentage of sales. They also can be used to determine income tax liability.

It is very important to format an income statement so that it is appropriate to the business being conducted.

Income statements, along with balance sheets, are the most basic elements required by potential lenders, such as banks, investors, and vendors. They will use the financial reporting contained therein to determine credit limits.

1. Sales

The sales figure represents the amount of revenue generated by the business. The amount recorded here is the total sales, less any product returns or sales discounts.

2. Cost of goods sold

This number represents the costs directly associated with making or acquiring your products. Costs include materials purchased from outside suppliers used in the manufacture of your product, as well as any internal expenses directly expended in the manufacturing process.

- ## Gross profit

Gross profit is derived by subtracting the cost of goods sold from net sales. It does not include any operating expenses or income taxes.

3. Operating expenses

These are the daily expenses incurred in the operation of your business. In this sample, they are divided into two categories: selling, and general and administrative expenses.

- ## Sales salaries

These are the salaries plus bonuses and commissions paid to your sales staff.

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Valuing a Business

• Collateral and promotions

Collateral fees are expenses incurred in the creation or purchase of printed sales materials used by your sales staff in marketing and selling your product. Promotion fees include any product samples and giveaways used to promote or sell your product.

• Advertising

These represent all costs involved in creating and placing print or multi-media advertising.

• Other sales costs

These include any other costs associated with selling your product. They may include travel, client meals, sales meetings, equipment rental for presentations, copying, or miscellaneous printing costs.

• Office salaries

These are the salaries of full- and part-time office personnel.

• Rent

These are the fees incurred to rent or lease office or industrial space.

• Utilities

These include costs for heating, air conditioning, electricity, phone equipment rental, and phone usage used in connection with your business.

• Depreciation

Depreciation is an annual expense that takes into account the loss in value of equipment used in your business. Examples of equipment that may be subject to depreciation includes copiers, computers, printers, and fax machines.

• Other overhead costs

Expense items that do not fall into other categories or cannot be clearly associated with a particular product or function are considered to be other overhead costs. These types of expenses may include insurance, office supplies, or cleaning services.

4. Total expenses

This is a tabulation of all expenses incurred in running your business, exclusive of taxes or interest expense on interest income, if any.

5. Net income before taxes

This number represents the amount of income earned by a business prior to paying income taxes. This figure is arrived at by subtracting total operating expenses from gross profit.

6. Taxes

This is the amount of income taxes you owe to the federal government and, if applicable, state and local government taxes.

7. Net income

This is the amount of money the business has earned after paying income taxes.

*** Source [Streetwise Small Business Start-Up]**

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