**The Income Statement Script**

Slide 1: This will be a pretty short presentation, but, I wanted to spend a few minutes talking about a few of the different ways we can present the information found in the Income Statement.

Slide 2: The Income Statement shows a company’s Revenues and Expenses for a given period – a month, a quarter, six months or a year. It is also commonly known as the “P&L” which is short for Profit and Loss statement. This name arises because if there is an excess of revenue over expenses, we have a profit; if there’s an excess of expenses over revenues, we would see a loss. Other less common names are the revenue statement and statement of financial performance. As with the different formats and presentations we will see, what it’s called depends on management preference, and on the preference of shareholders as determined by the board of directors.

Slide 3: One way to present Income Statement information is by listing items in Chart of Accounts order – however accounts are listed there determines the presentation on the statement. Generally, this only applies to expenses, however, there are some companies with different types of revenue – for example service revenue and sale revenue – where those would also be listed in Chart of Accounts order.

Slice 4: Some users/companies/accounting texts like to see expenses (and revenues, if applicable) listed from greatest to smallest. A ‘management by exception’ approach can be facilitated with this presentation by identifying those biggest contributors to total expenses.

Slide 5: Another variation is to list items in Alphabetical Order. Total Revenues, Total Expenses, and Net Income are unaffected. Again, this is a result of preferences.

Slide 6: The last three Income Statements we’ve seen have to do with Service Businesses. Here we see the Income Statement for a Merchandising Business – one that purchases Merchandise and resells it to customers. Please note that there are two video presentations that cover merchandising, if you wish to review those. The main difference we can see is that revenues are referred to as “Sales” which is short for Sales Revenue. From that, we deduct Sales Discounts, and Sales Returns & Allowance – contra revenue items that result from customers utilizing purchase discounts, and returning and/or receiving price reductions on purchases. This helps us arrive at Net Sales.

From Net Sales, we subtract Cost of Goods Sold – as it appears, this is the cost of whatever was sold to customers. We deduct Cost of Goods Sold in order to be in agreement with the Matching Principle (which is explained in greater detail in the Step 5 presentation).

After COGS is deducted from Net Sales, we arrive at Gross Margin or Gross Profit – from there, operating and other expenses are deducted just like in a Service Income Statement. Gross Margin is one of the most important measures of profitability for a merchandiser – if profit suffers there, it is unlikely that is will improve as we move down the statement.

Slide 7: This slide shows the simplest presentation of the Income Statement – the single-step statement. Items are presented in summary form with only total revenues, total expenses and net income showing – except for the merchandiser, where we see COGS and Gross Margin, additionally. I’ve included a single step statement for both service and merchandising businesses.

Slide 8: Here, we see a Multi-Step Income Statement for a merchandiser. This form of the statement provides the most detail and, to me, is the most useful. You can see that expenses are not only listed in great detail, but, they are broken out into selling expenses and General & Administrative Expenses. The reason for this is that there is a direct link between selling expenditures and sales revenue. Further, General & Administrative expenses tend to be fixed expenses – that is, they don’t change in response to sales volume (something that is covered in Managerial Accounting in greater detail).

Slide 9: I want to show here where Net Income goes next. The Income Statement is prepared first for this reason: we can’t prepare the statement of Retained Earnings without Net Income.

Slide 10: I have prepared a similar presentation on the Balance Sheet that covers different versions, as well as another covering the Cash Flow Statement.

Please feel free to view those, as well as the Accounting Cycle videos to see what goes into the preparation of these statements.