

## Chapter 3 - The Income Statement

### Unit 4 - Preparing the Income Statement

**Profit** - the increase in owner's equity resulting from the successful operation of a business

**Revenue** - amounts earned by the business from the sale of goods or services normally sold during the routine operations of the business

**Expenses** - the costs of items or services used up in the routine operation of the business

**Net Income** - the difference between revenue and expenses when revenue is greater than expenses

**Net Loss** - the difference between revenue and expenses when expenses are greater than revenue

## The Income Statement

- The **income statement** summarizes the items of revenue and expense and determines the net income or net loss for a stated period of time.
- The accounting period may be a week, month, quarter or year.
- Accounting period is also known as the **fiscal period**.
- Businesses prepare statements on a yearly basis for tax purposes

Income Statement Preparation see pg. 79

Step 1: Prepare Statement Heading

Who Company

What Income Statement

When For the Month Ending March 31, 2015

**note** WHEN: Date: for the month ending  
for the week ending

Step 2: Prepare the Revenue Section

largest revenue is listed first

Step 3: Prepare the Expense Section

listed in order that they appear, no special rule

Step 4: Determine Net Income or Net Loss

Time Period Principle - defining and consistent use of the same period of time for the accounting period

Matching Principle - Costs recorded for expenses should be matched with the revenue generated during the same accounting period

Effect of an Error in Applying the Matching Principle pg. 82

Accrual Basis of Accounting - Matches revenue earned with the expenses necessary to produce the revenue during the accounting period

Cash Basis of Accounting - Expenses are recorded only when cash is paid for an expense. Revenue is recorded only when cash is received for sales or other revenue

**The Income Statement:  
Determining Net Income (Net Loss)**

	Revenue	Expenses		Net Income (Net Loss)
(a)	\$100 000	\$70 000		_____
(b)	20 000	19 500	–	_____
(c)	31 000	35 000	–	_____
(d)	14 000	11 000	–	_____
(e)	28 000	30 000		_____

- When REVENUE is greater than expenses there is a NET INCOME.
- When EXPENSES are greater than revenue there is a NET LOSS.

### The Income Statement Format

Who?	Company Name
What?	Income Statement
When?	For the Month Ending October 31, 2015

Revenue (s)	\$ _____
Largest to smallest amounts	
Minus	
Expenses	_____
no rules as they appear	
Equals	
Net Income (Net Loss)	\$ _____
_____	

ACCOUNTING PERIOD AKA. FISCAL PERIOD

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