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WHAT DOES MY BUSINESS' INCOME STATEMENT MEAN?

Your business' Income Statement, which is also referred to as the Operating Statement, Earnings Statement or Profit & Loss Statement (P&L), shows what the day to day operations of your business looks like. It summarizes the money coming in and going out of your business. The Income Statement is issued periodically on a business giving an overview of how a business is performing for that specific period of time. Below are definitions of items found on a business' Income Statement:

Gross Sales or Gross Revenues: The total of Goods or Services your business sold during the specific period. This is either the actual cash taken in during the period or the gross amount of product or services sold for the period. If your business' Income Statement is on a cash basis, then this is the actual cash taken in. If your business' Income Statement is on an accrual basis, then it is the amount sold, but not necessarily the amount of cash taken in. Accrual Basis accounting allows you to recognize income when the product or service is delivered but not necessarily paid for. Your accountant can best guide you on what type of Income Statement best serves your business.

Adjustment for Returns for Credit or Trade Discounts: Dollars to be deducted from the Gross Revenues for items returned for credit and trade discounts.

Cost of Goods Sold: The actual cost to produce or manufacture the products sold during the period. This includes the cost of materials and can also include some labor costs and other related overhead. This is deducted from the gross revenues.

Gross Profit: What your business made after deducting the cost to produce the products.

Other Income: The funds derived from sources not related to your business operations, sales of goods, or services.

Operating Expenses: A breakdown of the expenses incurred to operate your business during the specific time period. This consists of payroll expenses, utilities, and any other expenses to operate your business. Also included are the non-cash expenses of depreciation and amortization.

Net Income: Deduct all the costs and expenses from the Gross Revenue. This is the business' true income for a specific period of time.

Retained Earnings: When your business generates profits, they can be paid to shareholders in the form of dividends, reinvested in the company, or both. After calculating Net Income, subtract any dividends paid to shareholders and the remainder to be reinvested is the Retained Earnings. On a periodic basis, this amount is added to the Retained Earnings from the previous period and transferred over to the Balance Sheet as an Equity line item.