Financial Statements (Part Deux)
If the Balance Sheet is a Snapshot, the Income Statement is a Movie – a measure of how the business has performed over a specific period of time.

Revenues – Expenses = Income

Aliases:
- Profit & Loss Statement
- Expense & Revenue summary
- Income & Expense statement
Income Statement

Income

• Revenue from sales
• Interest & Dividends earned
Income Statement

**Expenses**

- **Cost of goods sold**
  - Beginning inventory for period
  - *Plus* all purchases for the period
  - *Minus* inventory at end of period

- **Cost of goods manufactured**
  - Direct labor cost
  - Raw material cost
  - Factory overhead cost
    - Depreciation on building and machinery
    - Supplies
    - Supervisors salaries
Income Statement

Expenses (con’t)

- **Operating expenses, i.e. Expenses that contribute directly to sales of goods**
  - Advertising
  - Insurance
  - Sales personnel
  - Entertainment
  - Travel

- **General expenses, i.e. Indirect costs incurred in administration of business**
  - Payroll taxes, utilities, postage, etc

- **Other expenses**
Income Statement

Uses

• Analyze financial trends over a period of time
• Help to decide on
  • Investments
  • Purchases of assets
  • Distribution of profit
• Used by others
  • Federal income tax returns
  • State and local taxing agencies
  • Creditors and investors
**Income Statement**  
*For the Three Months Ending March 31, 2006*

<table>
<thead>
<tr>
<th></th>
<th>Year to Date</th>
<th>Percent of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Landscaping Fees</td>
<td>$20,075.00</td>
<td>99.50</td>
</tr>
<tr>
<td>Finance Charge Income</td>
<td>$100.00</td>
<td>0.50</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$20,175.00</td>
<td>100.00</td>
</tr>
<tr>
<td><strong>Cost of Sales</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Cost of Sales</strong></td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>$20,175.00</td>
<td>100.00</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auto Expense</td>
<td>$2,200.00</td>
<td>10.90</td>
</tr>
<tr>
<td>Commissions and Fees Exp</td>
<td>$6,000.00</td>
<td>29.74</td>
</tr>
<tr>
<td>Dues and Subscriptions Exp</td>
<td>$600.00</td>
<td>2.97</td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>$250.00</td>
<td>1.24</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$9,050.00</td>
<td>44.86</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>$11,125.00</td>
<td>55.14</td>
</tr>
</tbody>
</table>
Budget: You can look at it as an estimate of next year’s income statement

4 components
1. Income
2. Cost of goods sold (manufactured)
3. Controllable expenses
4. Uncontrollable costs
Components of a business budget

1. **Income**
   - EXPECTED sales revenue is forecast by the business and basis for almost all the budget
   - Number of units forecast to be sold during next year and included in THIS section determines the cost of goods sold, controllable expenses in OTHER sections.
2. **Cost of Good Sold**
   Estimated on basis of previous experiences in markup on the total volume of expected sales

3. **Controllable Expenses**
   Expenses the business has control over
   - Advertising
   - Personnel
   - Entertainment and travel

4. **Uncontrollable Expenses**
   Relatively fixed
   - Insurance, all depreciation, office expenses, postage, payroll taxes, utilities
Uses of the Budget

- Convince people to loan you money or make deals with you!
- Helps control the business
- Aids in making decisions about the business
- Allows you to check for deviations away from plans
Cash Flow Statement

Measure of change in cash the business has on hand from month to month

- Projects all cash receipts less all cash disbursements
- Used as
  - Record of cash
  - Projection into the future
Components of a cash flow statement

- Takes amount of cash on hand at beginning of the month
  - Adds
    - Cash receipts to the balance
  - Subtracts
    - Cash disbursements
  - Yields
    - Cash on hand at end of month
Cash Flow Statement

Uses of Cash Flow Statement

- Identifies future problems with cash
  - Warn
    - Months in advance of cash shortage
    - Amount of shortage
  - Identify surplus
    - Arrange for use of funds
- Tool for investor
  - More valuable than income statement