FINANCE AT A GLANCE

The meaning of the INCOME STATEMENT

Lesson 13

The three major financial statements are:

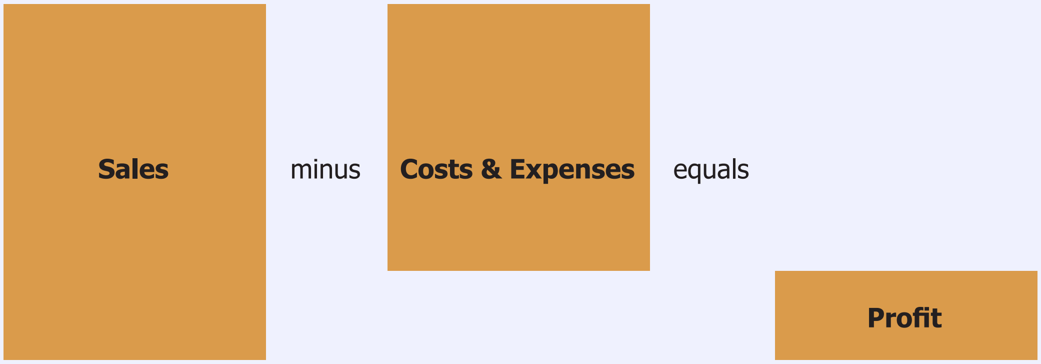
- the balance sheet (which we covered in the first twelve lessons),
- the income statement (also called the profit and loss statement, which we shall cover in this and in several succeeding lessons),
- the cash flow statement (which we shall cover at some time in the future).

The income statement gives insight on the aspects of the business' financial health -- its profitability.

The income statement is basically a report on the sales achieved minus what it cost to make the products sold or perform the services rendered, and minus the expenses incurred for the period. The difference between the sales and the said costs and expenses is the **income** (or **profit**) for the period.

This leads to the second basic equation of accounting:

Sales - Costs & Expenses = Profit



The income statement can be prepared for any length of time (one week, one month, one quarter, one year, etc.) In most cases the statement covering one fiscal year or one calendar year is the one used for reporting to shareholders and to tax authorities and other external parties who need to understand the profitability of the business.

The several succeeding lessons will discuss the components of the income statement.

Until the next e-lesson,

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