

## Introduction to the income statement

### What is an income statement?

An **income statement** is a financial **statement** that reports a company's financial performance over a specific accounting period. Financial performance is assessed by giving a summary of how the business incurs its revenues and expenses.

### Equations to note

**Net Revenue = Sales – sales return**

**Cost of sales = Purchases + carriage inwards + opening inventory – purchases return – closing inventory**

**Gross profit = Net revenue – Cost of sales**

**Profit/loss of the year = Gross Profit – Total expenses.**

### Steps to complete an income statement.

1. The narratives from the trial balance is transferred into the balance sheet or the income statement. For example Revenue, sales return, inventory, purchases, purchases return, carriage in and out, and many more. It is important to differentiate what does not go into the income statement for example, Trade payables or Non-current assets
2. To draw an income statement, you must begin with a title. For example “ The income statement of wyvern wholesalers for the year ended 31 December 2011”
3. Under the title, have two columns of the pounds sign on the right hand side of the page. Under this columns will include our working out and is where the total figure will be transferred.
4. Now on the trial balance, identify narratives that goes into the income statement.
5. How the income statement looks below:

Revenue		229,000	
<b>Less Cost of Goods Sold</b>			
Opening inventory	28,000		
Add Purchases	120,000		
Less Discounts	-5,000		
Add Freight inwards	2,000		
Less Closing Stock	-31,000	114,000	
<b>Gross profit</b>			115,000
<b>Less Expenses</b>			
Rent	60,000		
Insurance	2,000		
Wages	30,000		
Petrol	10,000		
Cleaning	5,000	107,000	
<b>Net profit</b>			8,000

### **Point to Note:**

Under your gross profit you must add your income, this will give you your new gross profit

Return inwards = sales return

Return outwards = Purchase return

6. Using the equations provided, work out the net revenue, cost of sales, gross profit in order to attain a profit for the year figure.

Produce an income statement for wyvern ltd for the year ending 2017

Sales	136,000
Return inwards	12000
Purchases	65000
Closing inventory	15000
Opening inventory	27000
Return outwards	10000
Discount received	5000
Wages and salaries	6700
Rent	7000
General expenses	4000

Incomes includes: **Discounts received, commission received** and etc.