Sample Income Statement

The Income Statement shows the net income or loss that the business has experienced over a period of time. It is your company’s financial grade card. The time period could be a day, week, month, quarter, or year. This report helps you determine if your business is making or losing profits. The Income Statement displays the revenue (sales) earned by your company and the expenses it incurred to generate those revenues. Then it reports Net Income based on those revenues and expenses for the intended period of time.

Income Statement Categories

Revenue – Revenue (or Sales) can be described as money earned from conducting the business’s activities. It is sometimes called Net Sales on the Income Statement.

Expenses – Expenses are costs associated with supporting the business’s activities. The expenses that appear on the Income Statement are generally the same expenses that the Internal Revenue Service allows as deductions for income tax purposes. In addition, the Income Statement may include some non-cash expenses such as depreciation or amortization.

Net Income – The ultimate goal of any business is to produce a positive net income or profit over the long haul.
The Backyard Solutions Income Statement demonstrates a common format used by many businesses. Although there are always variations, most Income Statements will appear very similar to this one. Use this sample to review the headings, sub-headings, and accounts below that appear on a detailed Income Statement.

**Line Item Descriptions**

**Net Sales** includes all sales reduced by any discounts or returns.

**Cost of Goods Sold** includes all the costs of inventory sold, including production labor, materials, and overhead. This amount is subtracted from the Inventory account on the Balance Sheet.

**Gross Margin**, or Gross Profit, is the first cut. Can the company’s sales price cover all of the costs to manufacture the items being sold?

**Operating Expenses** lists the total of expenses incurred to operate the business. Non-operating expenses, such as interest expenses, are excluded.

**Advertising** includes any costs directly related to advertising products/services to potential customers.

**Bad Debt Expense** is used to write off invoices to customers who are not expected to pay.

**Bank Charges** includes any cost of banking for a checking account, merchant account, or other fees.

**Depreciation & Amortization** is used to allocate the expense of fixed and intangible assets over a certain number of years.

**Dues & Subscriptions** includes costs of trade magazines or periodicals and membership dues to organizations.

**Insurance** includes the cost of purchasing general liability or other insurance.

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The **Net Income** reports the company’s profit or loss. Profits represent an increase in the value of the business to the owner(s). Therefore, this amount will show up as Retained Earnings in the equity section of the Balance Sheet.
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**Licenses & Fees** includes any costs incurred for occupational licenses, fees, or other licensing registrations.

**Marketing & Promotion** includes any costs related to marketing to customers or helping establish the business’s image.

**Meals & Entertainment** includes the costs incurred for networking meals and other meetings with potential customers and advisers.

**Miscellaneous** includes expenses that do not fit into any other category.

**Office Expense** includes the expenses to run the office, including postage but not office supplies.

**Office Supplies** includes the supplies you purchase for office needs, not including products that will be resold to customers.

**Outside Services** includes money paid for outside consultants, sub-contractors, and other vendors.

**Payroll – Salaries, Taxes, & Benefits** includes the entrepreneur’s salary, benefits, and company-paid taxes and the salary, benefits, and taxes of all employees. Sole proprietors record their “salary” as an owner’s draw.

**Professional Fees** includes costs to hire a professional to help with different areas of a business, such as management consultants, lawyers, accountants, and other professionals.

**Property Taxes** includes taxes paid on the property owned by the business. It does not include income taxes. Income taxes are not an operating expense of the business.

**Rent** includes the specific costs of renting the business facility including common area maintenance costs.

**Repairs & Maintenance** includes all costs to maintain computers, equipment, and other capital purchases.

**Shipping & Delivery** includes costs associated with shipping or delivering products/services.

**Telephone** includes costs associated with local service, long distance, and mobile phone service, if applicable.

**Training & Development** includes costs for employee training and development.

**Travel** includes costs for traveling for business purposes to training sessions, out-of-town association meetings, or other business-related events.

**Utilities** includes costs of utilities, such as electricity, water, and gas.

**Vehicle** includes actual costs incurred for company-owned vehicles or mileage reimbursement if the vehicle is not company-owned.

**Leased Equipment** includes lease payments for equipment. The management of Backyard Solutions added this title by replacing one of the Other categories in the Financial Template.
Three **Other** categories are included on the Financial Template so users can add additional account categories. This company has used one of these for Leased Equipment.

**Operating Income**, also known as Earnings Before Interest and Taxes (EBIT), is the income generated from conducting business. (Gross Margin less Total Operating Expenses.)

**Interest Expense** is the interest portion of the loan payments made during the year.

**Other Income** is income received from activities other than the normal business operations, such as non-operating rent income.

**Income Before Taxes** is a Net Profit calculation that is often used to compare one company against another since this figure has not been reduced by income taxes paid.

**Income Taxes (if C Corp)** is calculated on this report to help identify the real bottom line. With sole proprietorships, partnerships, S corporations, and LLCs, the income taxes are passed through to the owners, so they would not be included here.

**Net Income**, also known as Net Profit, is the earnings after taxes are paid—the “bottom line.” When measured as a percentage, this item is referred to as Net Margin, Net Income Margin, or Net Profit Margin.