



Income Statement (aka Profit and Loss Statement)

An income statement is a financial report that presents a company's revenue, expenses and profit or loss over a period of time (typically month, quarter, and/or year). The income statement is broken down into three primary sections: gross profit, operating profit, and net profit.

- **Revenue (aka Sales):** Revenue is the total amount of income generated by the sale of goods or services related to the company's primary operations.
- **Cost of Goods/Services Sold (aka Cost of Sales):** Cost of goods or services sold include the direct costs incurred to create product that has been sold or services that have been provided. Some common examples include product materials, shipping costs, and direct labor associated with producing the product or providing the service.
- **Gross Profit:** Gross profit is the difference between revenue and cost of goods/services sold.
- **Gross Margin:** Gross margin is gross profit as a percentage of revenue.
- **Operating Expense:** Operating expenses are ordinary and necessary costs of operating a trade or business. Some common examples include selling and administrative personnel costs (wages, payroll taxes, employee benefits), marketing costs, rent, utilities, and insurance.
- **Operating Profit/Loss:** Operating profit or loss is the difference between gross profit and operating expenses. This can also be referred to as "Earnings Before Interest, Taxes, Depreciation and Amortization" or "EBITDA".
- **Non-Operating Income/Expenses:** Non-operating income and expenses are generally tied to business activities which are not directly related to the principal business operations of the company. Some examples include gains or losses from the disposal of assets, interest income or expense, depreciation and amortization, and income taxes.
- **Net Profit/Loss:** Net profit or loss is the difference between operating profit, non-operating income, and non-operating expenses.

Income Statement – Cash Basis Accounting

A cash basis income statement only contains revenues for which cash has been received from customers, and expenses for which cash expenditures have been made.

XYZ Clothing Company, LLC
Income Statement - Cash Basis Accounting
Year Ending December 31, 20XX

Sales	
Men's Clothing	\$ 260,000
Women's Clothing	\$ 285,000
Children's Clothing	\$ 215,000
Total	\$ 760,000
Cost of Goods Sold	
Men's Clothing	\$ 180,000
Women's Clothing	\$ 190,000
Children's Clothing	\$ 140,000
Total	\$ 510,000
Gross Profit	\$ 250,000
Gross Margin	32.9%
Operating Expenses	
Personnel Costs	
Salary and Wages	\$ 100,000
Payroll Taxes	\$ 9,000
Employee Benefits	\$ 7,000
Facility and Equipment Costs	
Rent	\$ 24,000
Utilities	\$ 3,500
Repair and Maintenance	\$ 3,000
Administrative	
Marketing and Advertising	\$ 9,000
Business Insurance	\$ 4,000
Office Supplies	\$ 2,000
Legal/Accounting Services	\$ 3,000
Total	\$ 164,500
Operating Profit (EBITDA)	\$ 85,500
Non Operating Income/Expenses	
Interest Income	\$ 500
Interest Expense	\$ (3,000)
Depreciation	\$ -
Gain/(Loss) on Sale of Assets	\$ -
Total	\$ (2,500)
Net Profit/(Loss) before Taxes	\$ 83,000

Income Statement – Accrual Basis Accounting

Under the accrual basis of accounting, revenues are reported on the income statement when they are earned (not when payment is received) and expenses when they are incurred (not when payment is made).

XYZ Clothing Company, LLC
Income Statement - Accrual Basis Accounting
Year Ending December 31, 20XX

Sales	
Men's Clothing	\$ 320,000
Women's Clothing	\$ 300,000
Children's Clothing	\$ 250,000
Total	\$ 870,000
Cost of Goods Sold	
Men's Clothing	\$ 210,000
Women's Clothing	\$ 200,000
Children's Clothing	\$ 155,000
Total	\$ 565,000
Gross Profit	\$ 305,000
Gross Margin	35.1%
Operating Expenses	
Personnel Costs	
Salary and Wages	\$ 110,000
Payroll Taxes	\$ 9,500
Employee Benefits	\$ 7,500
Facility and Equipment Costs	
Rent	\$ 24,000
Utilities	\$ 3,500
Repair and Maintenance	\$ 3,000
Administrative	
Marketing and Advertising	\$ 9,000
Business Insurance	\$ 5,500
Office Supplies	\$ 2,000
Legal/Accounting Services	\$ 4,000
Total	\$ 178,000
Operating Profit (EBITDA)	\$ 127,000
Non Operating Income/Expenses	
Interest Income	\$ 750
Interest Expense	\$ (3,750)
Depreciation	\$ (10,000)
Gain/(Loss) on Sale of Assets	\$ (3,000)
Total	\$ (16,000)
Net Profit/(Loss) before Taxes	\$ 111,000