**Financial statements of a Company**

**Income Statement or Statement of Comprehensive Income**

* The Income Statement = **Statement of Comprehensive Income**
* It measures a company’s **financial performance** over a specific accounting period
* The Income Statement is a **summary of the incomes (revenue) and expenses** of a business
* Because **incomes and expenses** are used, we will use the **Nominal accounts section** of the Trial Balance to compile the Income Statement
* The **GAAP** principle of **Matching** will be applied in the Income Statement.
* **Matching principle** states that **income and expenses** must be reflected against each other in the **correct** **financial period**. It must be shown in the **financial year** in which it **had to appear**, even if it was **not paid or received** yet.
* The Income Statement shows the **net profit or loss** a business incurred in a specific accounting period
* The Income statement works on the following principle:
* Turnover (Sales – Debtors allowance) – Cost of Sales = Gross Profit
* Gross Profit + Incomes – Expenses = Operating profit / loss
* Operating profit / loss + Interest income – Interest expense = Profit before tax
* Profit before tax – Income tax = Net Profit / loss for the year

**Step 1**

Income Statement of ……….. for the year ended ………

|  |  |  |
| --- | --- | --- |
|  Turnover |  |  |
| - Cost of Sales |  | ( ) |
| = **Gross profit** |  |  |

**Step 2**

Income Statement of ……….. for the year ended ………

|  |  |  |
| --- | --- | --- |
|  Turnover |  |  |
| **-** Cost of Sales |  | ( ) |
| **= Gross profit** |  |  |
| **+ Other operating income** |  |  |
|  Rent income |  |  |
|  Bad debts recovered |  |  |
|  Discount received |  |  |
| **= Gross operating income** |  |  |

**Step 3**

Income Statement of ……….. for the year ended ………

|  |  |  |
| --- | --- | --- |
|  Turnover |  |  |
| **-** Cost of Sales |  | ( ) |
| **= Gross profit** |  |  |
| **+ Other operating income** |  |  |
|  Rent income |  |  |
|  Bad debts recovered |  |  |
|  Discount received |  |  |
| **= Gross operating income** |  |  |
| **- Operating expenses** |  | ( ) |
|  Rent expense |  |  |
|  Directors fees |  |  |
|  Audit fees |  |  |
| **= Operating profit / loss** |  |  |

**Step 4**

Income Statement of ……….. for the year ended ………

|  |  |  |
| --- | --- | --- |
|  Turnover |  |  |
| **-** Cost of Sales |  | ( ) |
| **= Gross profit** |  |  |
| **+ Other operating income** |  |  |
|  Rent income |  |  |
|  Bad debts recovered |  |  |
|  Discount received |  |  |
| **= Gross operating income** |  |  |
| **- Operating expenses** |  | ( ) |
|  Rent expense |  |  |
|  Directors fees |  |  |
|  Audit fees |  |  |
| **= Operating profit / loss** |  |  |
| + Interest income | 1 |  |
| **= Profit/loss before interest expense** |  |  |

**Step 5**

Income Statement of ……….. for the year ended ………

|  |  |  |
| --- | --- | --- |
|  Turnover |  |  |
| **-** Cost of Sales |  | ( ) |
| **= Gross profit** |  |  |
| **+ Other operating income** |  |  |
|  Rent income |  |  |
|  Bad debts recovered |  |  |
|  Discount received |  |  |
| **= Gross operating income** |  |  |
| **- Operating expenses** |  | ( ) |
|  Rent expense |  |  |
|  Directors fees |  |  |
|  Audit fees |  |  |
| **= Operating profit / loss** |  |  |
| + Interest income | 1 |  |
| **= Profit/loss before interest expense** |  |  |
| - Interest expense | 2 | ( ) |
| **= Profit / loss before tax** |  |  |

**Step 6**

Income Statement of ……….. for the year ended ………

|  |  |  |
| --- | --- | --- |
|  Turnover |  |  |
| **-** Cost of Sales |  | ( ) |
| **= Gross profit** |  |  |
| **+ Other operating income** |  |  |
|  Rent income |  |  |
|  Bad debts recovered |  |  |
|  Discount received |  |  |
| **= Gross operating income** |  |  |
| **- Operating expenses** |  | ( ) |
|  Rent expense |  |  |
|  Directors fees |  |  |
|  Audit fees |  |  |
| **= Operating profit / loss** |  |  |
| + Interest income | 1 |  |
| **= Profit/loss before interest expense** |  |  |
| - Interest expense | 2 | ( ) |
| **= Profit / loss before tax** |  |  |
| - Income tax (assessment) |  | ( ) |
| **= Net Profit / Loss for the year** | 7 |  |

**Step 7**

**Notes to the Income Statement**

1. **Interest income**

|  |  |
| --- | --- |
| On fixed deposit |  |
| On savings account |  |
| On overdue debtors |  |
| On current account |  |

1. **Interest expense**

|  |  |
| --- | --- |
| On overdraft |  |
| On loan |  |
| On overdue creditors |  |