

Completing a Profit/Loss Statement (Income Statement)

Objectives:

- The student will learn how to complete the income (or loss) statement
- The student will calculate and analyze income statements
- The student will learn strategies for tracking personal finances

Guidelines for completing the income statement

- Determining profit is very important to a business's future - **Be Accurate**
- Complete the statement for the same time period as the balance sheet and other financial statements.

Guidelines for completing the income statement

- Use cash and accrual accounting methods
- Cash accounting recognizes income when received and expenses when paid
- Accrual accounting recognizes transactions that increase net worth as income and decrease net worth as expenses
- Accrual accounting records income and expenses as they are incurred, not when they are received or paid.

Revenue

- Cash sales – usually categorized by enterprise (crops, livestock, etc.)
- Non-cash - inventory adjustments, capital gain or loss, accounts receivable

Expenses

- Cash (operating) expenses – fuel, feed, seed, pesticides, etc.
- Non-cash – depreciation, accrued interest, accrued taxes, and other

Net Income

- Net Income from Operations = Revenue minus expenses
- Net Business Income → Returns to capital, labor, and management

Using the cash accounting method for calculations

- Net Cash Income
= Cash Revenue – Cash Expenses
- Net Income from Operations
= Net Cash Income – Depreciation
- Net Income
= Net Income from Operations
+/- gain/loss on sale of capital

Using the accrual accounting method for calculations

- Net Income from Operation =
Gross Revenue
- Cash Expenses
- Depreciation
+/- Noncash Expense Adjustment
= Net Income from Operation

- Net Income =
Net Income from Operations
+/- gain/loss on sale of capital

Strategies for Tracking Personal Finances

- ✓ Stay organized – a good filing system and a computer will help
- ✓ Stay up to date – getting behind is not helpful, update regularly
- ✓ Be accurate – a little mistake now can be a big problem later
- ✓ Develop a monthly budget – modify it as necessary, especially with cost changes

Strategies for Tracking Personal Finances

- ✓ Use a computerized spreadsheet to track personal finance items like:
 - checking account(s)
 - savings account(s)
 - investment information
 - monthly budget
 - taxes
 - insurance