Unit 5 Income Statements and Statements of Capital

I. Introduction

A. Unit 3 explained the balance sheet. It is the **statement of financial position**.

B. This unit explains the income statement. It measures profitability over a period of time.

II. The Income Statement

A. **Revenues** are the increases in assets that result from business activity. Examples include cash and customer obligations (accounts receivable) received from the sale of goods and services.

B. **Expenses** are the decreases in assets or increases in liabilities that result from business activity. Examples include cash paid to employees and amounts owed for utilities.

C. **Net Income (loss) = Revenue - Expenses**.

D. Other names for net income include **income**, **earnings**, **net earnings**, and **profit**.

E. Net income is generated over a period of time (monthly, quarterly, semiannually, and yearly).

III. Single-Step and Multi-Step Income Statements

A. A single-step income statement has one category for revenue and one category for expenses.

B. A multi-step income statement has many categories.

Note: Income is earned over a period of time.

Quick Company
Single-Step Income Statement
For Period Ending December 31, 1997

Revenue		
Sales Revenue	$4,000,000	
Other Income	150,000	
Total Revenue		$4,150,000
Expenses		
Cost of Goods Sold	$2,000,000	
Wages	100,000	
Utilities	40,000	
Interest	700,000	
Other Expenses	810,000	
Total Expenses		3,650,000
Net Income		$ 500,000

Quick Company
Multi-Step Income Statement
For Period Ending December 31, 1997

Sales Revenue	$4,000,000	
Cost of Goods Sold	2,000,000	
Gross Profit		$2,000,000
Operating Expenses		
Wages	$ 100,000	
Utilities	40,000	
Interest	700,000	
Other Expenses	810,000	
Total Operating Expenses		1,650,000
Income (Loss) from Operations		$ 350,000
Other Revenue and Expenses		
Other Income		150,000
Net Income		$ 500,000

IV. The Statement of Capital and the Statement of Stockholders' Equity

A. These statements show the change in equity that took place during an accounting period.

B. Income minus withdrawals is distributed to a sole proprietor or partners.

C. Dividends are used to distribute income to stockholders. What remains is added to **Retained Earnings**. Contributed capital plus retained earnings equal stockholders' equity.

Quick Company
Statement of Capital
For Period Ending December 31, 1997

Mr. C's Capital, January 1, 1997		$8,000,000
Income[1]	$500,000	
Withdrawals[1]	200,000	300,000
Mr. C's Capital, December 31, 1997		$8,300,000[2]

Quick Company
Statement of Stockholders' Equity
For Period Ending December 31, 1997

Contributed Capital		
Preferred Stock	$2,500,000	
Common Stock	1,000,000	$3,500,000
Additional Paid in Capital		
Preferred Stock	$ 500,000	
Common Stock	4,000,000	4,500,000
Total Contributed Capital		$8,000,000
Retained Earnings		
Net Income	$ 500,000	
Dividends	200,000	300,000
Total Stockholders' Equity		$8,300,000[2]

[1] The equity statement of a partnership shows income minus withdrawals for each partner.

[2] This new equity balance appears on the December 31, 1997, Balance Sheet.