**The Income Statement and its Components**

**What is an income statement? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**



1. The**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** gives the:
	1. \_\_\_\_\_\_\_\_\_ of the business;
	2. name of the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_;
	3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ for which the figures have been accumulated.
2. The **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** section shows an \_\_\_\_\_\_\_\_\_\_\_\_\_\_ in equity resulting from the proceeds of the sale of goods or \_\_\_\_\_\_\_\_\_\_\_\_\_\_ in the ordinary course of business. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ are usually placed in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ order.
3. \_\_\_\_\_\_\_\_\_\_ types of revenue are shown in the \_\_\_\_\_\_\_\_\_\_\_\_\_\_ for ROMA AIRLINES.
4. The **\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** section shows \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in equity resulting from the \_\_\_\_\_\_\_\_\_\_\_\_\_\_ of the goods or services used to produce the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. The expenses are usually placed in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ order.
5. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ are shown in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
6. The Net \_\_\_\_\_\_\_\_\_\_\_\_\_\_ or Net \_\_\_\_\_\_\_\_\_\_\_\_ figure. Net \_\_\_\_\_\_\_\_\_\_\_\_\_ is not cash. It is the difference between total revenues and total expenses, if the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ are greater than the \_\_\_\_\_\_\_\_\_\_\_\_\_. In this case a net income is the result. If total expenses are greater than total revenue, the company would suffer a net \_\_\_\_\_\_\_\_\_\_\_\_ for the period.

**Uses of the Income Statement**

1. *By \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_*: the income statement tells the owners or managers if their business is earning profit. The data from the accounts contained in the income statement can be compared from year to year and decisions can be made according to them.
2. *By \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_:* financial statements inform bankers of the ability of the company to pay back its debts.
3. *By \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_:* The income statement must be sent to the government along with the owner’s income tax return.

***Other Terminology:***

**Fiscal Period:**  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. All fiscal periods for an individual business are the same length. This period is usually one year. The fiscal period does not have to run from January to December.  It can run for 12 consecutive months in the year.

**The Time Period Concept**:

**The Matching Principle**:

# Unit 3: Income Statement Transactions (T – Account, Trial Balance, Formal Journal and Ledger)

## Activity 3: The Income Statement

**Complete the following assignment and submit your work to your teacher.**

1. Using the template and the following expanded ledger accounts, create an income statement for Compu-Parts Inc (owner: Andrea Muldoon). Date the Income Statement for the year ended December 31st, 2006. Be sure to place the accounts in the correct order and provide a correct format.
2. Use a formula to determine the net income/net loss of the fiscal period and the total revenues/expenses.
3. Explain, with the net income/loss obtained, how this figure would affect the capital account of the company (increase or decrease).

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| Accounts | ****Balances**** |
| Accounts payable | 31255 |
| Accounts Receivable  | 7540 |
| Automobile  | 41520 |
| Bank  | 31600 |
| Beginning Capital  | 99000 |
| Building  | 65000 |
| Car Expense  | 13600 |
| Commissions Earned  | 42590 |
| Drawings |   7520 |

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| --- | --- |
| ****Accounts**** | ****Balances**** |
| Equipment  | 17800 |
| Fees Earned  | 74175 |
| General Expense  | 3985 |
| Land  | 74560 |
| Loan Payable  | 21500 |
| Mortgage Payable  | 32480 |
| Postage Expense  | 415 |
| Rental Expense  | 7640 |
| Wages Expense | 29820 |

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