

INCOME STATEMENT

Remember the Income statement is made up of three accounts

- Trading Account** *Def* This section calculate the gross profit (or loss) of the company. This is calculated by taking the cost of goods sold from sales
- Profit or Loss** *Def* This is also known as the expense section and is used to calculate the net profit. This is calculated by take the total expenses from the Gross Profit figure
- Appropriation Account** *Def* This section shows how much dividend were given to shareholders and how much reserves (money left over) the company has. It is calculated by taking the dividend away from net profit and them adding on the opening reserves.

We look at the Trading account in the previous handout (Remember you need to know this layout)

ACCOUNTING FOR EXPENSES

Most companies have expenses. These are also known as Overheads. This will reduce the gross profit of the company. All these expenses are added up and then taken away from your Gross Profit to give the company's Net Profit.

- Net Profit** *Def* This is when the expenses are less than the Gross Profit
- Net Loss** *Def* This is when the expenses are greater than Gross Profit
- Capital Expenditure** *Def* This is the money that is spent on items that will last for a long time in the business. These items are also known as fixed assets and included
- Premises, Vehicles
- Current Expenditure** *Def* These are day to day expenses and are used to run the company. They are also known as revenue expenditure and examples include Wages, Insurance.

Current expenditure - the day-to-day expenditure is included in this section - The profit or Loss (Expense)

Examples of Expenses

Wages & Salaries	General Expenses	Marketing Expenses
Insurance	Office Expenses	Interest on loans *
Light and Heat	Cleaning Expenses	Audit fees
Telephone	Travel Expenses	Carriage Outwards
Rent and Rates	Advertising	Bad debts
Postage and Stationery	Selling Expenses	Bad Debts
Repairs	Vehicle Expenses	Depreciation of FA *

* These items will go in twice - Once in the Profit and Loss account (IS) and then in the Creditors due within one year (interest on loans) and Fixed Assets (Depreciation of FA)

You will need to know these. Not all of them will come up as part of a question but you don't know which ones will.

PROFIT AND LOSS LAYOUT

Income statement for ABC Ltd for year ended 31.12.2019			
GROSS PROFIT			X
<u>Less Expenses</u>			
Wages		X	
Insurance		(+) X	
L & H		(+) X	
Telephone		(+) X	
Rent		(+) X	
Wages sales staff		(+) X	
Advertising		(+) X	
Carriage outwards		(+) X	
Selling Expenses		(+) X	
Interest on loans		(+) X	
Depreciation on vehicles		(+) X	(-) X
NET PROFIT			X

THE APPROPRIATION ACCOUNT

This section shows how the net profits is distributed between the shareholders and the company. The shareholders will receive a dividend while the company will retain a certain amount of the profit to put back into the business. These are also known as revenue reserves

Income statement for ABC Ltd for year ended 31.12.2019			
NET PROFFIT			X
Less Dividends			(-) X
			X
Add opening Reserves			(+) X
31.12.xx Profit and Loss			X

The Layout for the appropriation account will never change