



Manage the Finance

Handout 4

Income Statement

Arial Trading (Pty) Ltd (Thousands of Rands)

Income Statement for the year ended 28 Feb 2009

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Income	
Sales	4 076
(Less) Cost of Sales	
Cost of goods sold	(3 207)
Gross Profit	869
Operating Expenses	
General Admin/ business expenses	(227)
Depreciation expenses	(206)
Total Operating Expenses	(433)
Operating Income	436
Interest expense	(3)
Earnings before Taxes	433
Taxes	165
Net Income	268

Let's break down some of the main elements that could reflect on an Income Statement:

Element of Income Statement	Explanation
INCOME	The revenue or turnover of an organisation. The inflows from the delivery or manufacture of a product or from the rendering of a service. Income could be reflected by Sales, Revenue or Turnover.
Sales (also sometimes referred to as Revenue or Turnover)	Money derived from selling the company's product or service.
Cost of Sales	Includes all the spending <i>directly</i> associated with sales. For wholesalers and retailers, the cost of sales is essentially the prices paid to acquire the services or goods that will be resold. For manufacturers, the cost of sales is all the spending directly attributed to production (examples would include raw materials, factory overheads and wages). Cost of sales could also include research and development costs. By implication, cost of sales requires a calculation – these calculations could vary from very simple to more complexes, depending on the type of organisation. An example of a Cost of Sales calculation would be <i>Opening Stock + Cost of Purchasing – Closing Stock</i> . It is important to note that cost of sales does not include <i>indirect costs</i> (costs which cannot be directly attributed to sales and production.) Cost of sales is always a contra-entry as it is a cost.
GROSS PROFIT	The Sales less the Cost of Sales is the Gross Profit.
Operating Expenses	All expenses related to administering the business and marketing and distributing the product or service. Operating expenses might include rent, telephone, wages, water and electricity, advertising, bank charges, insurance, fees, salaries, repairs and other expenses. Depreciation is also considered an operating expense.

OPERATING PROFIT (OR LOSS)	Operating profit (or loss) is calculated by deducting Operating Expenses from Gross Profit. This is the core of the income statement.
<i>Finance costs / Revenue or expenses / Gains or losses that are not part of the company's normal operations.</i>	These could include interest paid on loans, interest received on deposits and investment income.
PROFIT (OR LOSS) BEFORE TAX	This is the operating profit (or loss) less the other revenue / expenses or gains or losses that are not part of the company's normal operations.
<i>Tax</i>	Company taxes that are payable in accordance with legislation. These would be based on taxable income.
NET PROFIT (OR LOSS)	This is the net income (or loss) after tax.