INCOME STATEMENTS

An income statement reports a company's revenues and costs spent earning those revenues during a particular period of time. Then, the bottom line of the income statement shows the net earnings or losses – how much the business earned or lost during the period. Then, the income statement calculates the earnings per share – how much shareholders would get if the company distributed its net earnings to the owners. Income statements are laid out like walking down a flight of stairs. The top step contains all sales made during the period – gross revenues or gross sales. Gross means no expenses have been deducted yet. Each step down is a deduction for a cost or expenses associated with the making the sale. Finally, at the bottom of the stairs, the bottom line contains the amount of earnings or losses during the period.

1.

GROSS SALES
a/k/a
gross revenues

–

LESS: Discounts, Allowances & Returns
(amounts company predicts won't be collected)

=

NET REVENUES

"Gross" = operating expenses not yet deducted

2.

–

LESS: Cost of Sales
(amount the company spent directly to generate sales)

=

GROSS PROFIT
a/k/a
gross margin

Profits after expenses but before interest & tax

3.

–

LESS: Operating Expenses
(expenses not linked directly to sales)

LESS: Depreciation
(deductions for wear on long term assets)

=

OPERATING PROFIT
a/k/a
income from operations

How much the company earned

4.

+/–

PLUS/MINUS: Interest
(interest income +/– interest expense)

LESS: Income Tax

=

NET PROFIT or NET LOSS
a/k/a
the bottom line, net income or net earnings

5.

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DIVIDED BY: Number of Shares Outstanding

=

EARNINGS PER SHARE
a/k/a
EPS

CASH FLOW STATEMENTS

Cash statements show the company's net cash flows. The income statement shows profits and losses, but the cash flow statement shows cash generated or expended. The cash flow statement is not a snapshot, but a report of movement over the period, made up of parts of the balance sheet and income statement.

The bottom line of the cash flow statement shows the ultimate increase or decrease in cash. Cash flow statements usually include 3 parts: (1) cash from or for operating activities; (2) cash from or for investing activities; and (3) cash from or for financing activities.