

# THE INCOME STATEMENT

Shows revenues and expenses for a certain period of time

## MEMORIZE THIS FORMULA

### Revenues

– COGS

### Gross Profit

– Operating Expenses

– Depreciation

### EBIT

– Interest

– Taxes

### Net Income

## Revenues (Sales)

The money you got from selling your product

Sometimes it's called "Sales" or "Income"

## COGS Cost of Goods Sold

How much it cost you to make what you sold

Direct Materials - cost of the materials used to create the products you sold

Direct Labor - what you paid the workers who made the products you sold

## Gross Profit

What was left over from your sales money after you took away how much it had cost you to make

Don't confuse Gross Profit (which is in \$) with Gross Profit Margin (which is a %)

## Operating Expenses

Costs that are not directly tied to production

Rent, office staff, administration costs, etc.

## Depreciation Expense

Your older your stuff gets, the less it is actually worth

Depreciation is just a concept, not a cash flow. So it is a *non-cash expense*.

It's just there so the government doesn't tax you on the brand-new price.

## EBIT Earnings Before Interest and Taxes

**KNOW THIS:** EBIT is also called Operating Income and Operating Profit

## Interest Expense

Interest the firm paid for bonds, long-term debt, notes payable, etc.

The interest paid gets to be written off, so it's removed *before* the tax calculation

## Taxes

Money the government takes away from our profits

Taxes take away a big chunk.

*If the firm's marginal tax rate is 34%, they keep just 66% of their profits.*

## Net Income

Your total earnings after taking away all the costs of doing business

Some of the Net Income might get paid out in Dividends. Whatever is left gets added to Retained Earnings. (See The Balance Sheet for more detail)

## Things to Note

Table 2.2 in the text lists depreciation as one of the Operating Expenses. But the rest of the text always treats it as a separate item from Operating Expenses.

EBITDA isn't covered in the text until Topic 7. But it shows up in a Topic 2 quiz answer. It just means Earnings Before Interest, Taxes, Depreciation, and Amortization.