**The Income Statement**

Shows revenues and expenses for a certain period of time

<table>
<thead>
<tr>
<th>Memorize This Formula</th>
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</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
</tr>
<tr>
<td>- COGS</td>
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<tr>
<td><strong>Gross Profit</strong></td>
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<tr>
<td>- Operating Expenses</td>
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<td>- Depreciation</td>
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<tr>
<td><strong>EBIT</strong></td>
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<tr>
<td>- Interest</td>
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<td>- Taxes</td>
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<tr>
<td><strong>Net Income</strong></td>
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</table>

**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)

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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.


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