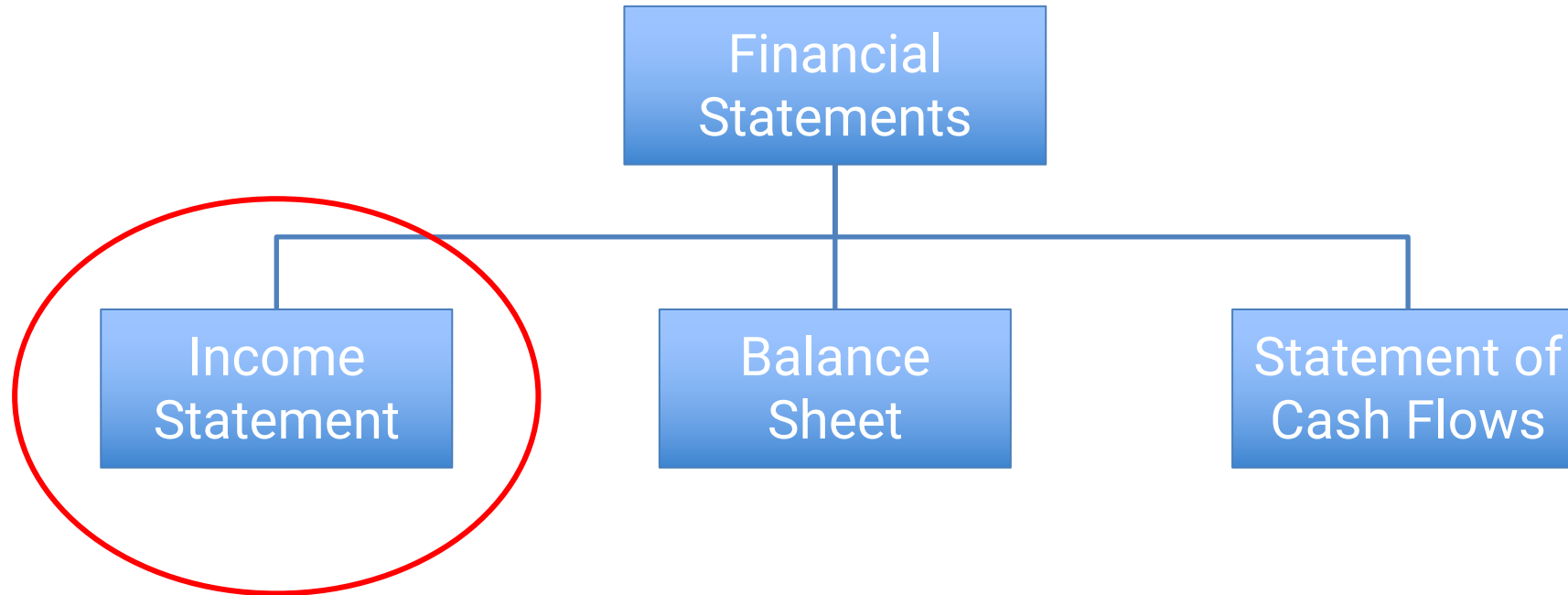


# *The Income Statement*



Also called:

- Profit & Loss Statement (the “P&L”)
- Statement of Operations

# The Income Statement

*This is very much  
your own personal  
"Income Statement"*

## *Your Personal Monthly Budget:*

Your Income ("Revenue"):

Salary (net):     \$7,500

Your "Profit" at the End of the Month:

Income:     \$7,500

Expenses:   \$7,100

"Profit":     \$ 400

Your Expenses:

Investments:     \$ 750

Student Loans:   \$1,500

Rent:             \$2,000

Credit Cards:     \$1,000

Car Payment:     \$ 250

Utilities:          \$ 200

Cable/Internet:   \$ 150

Phone:             \$ 100

Gas:                \$ 150

Food:             \$1,000

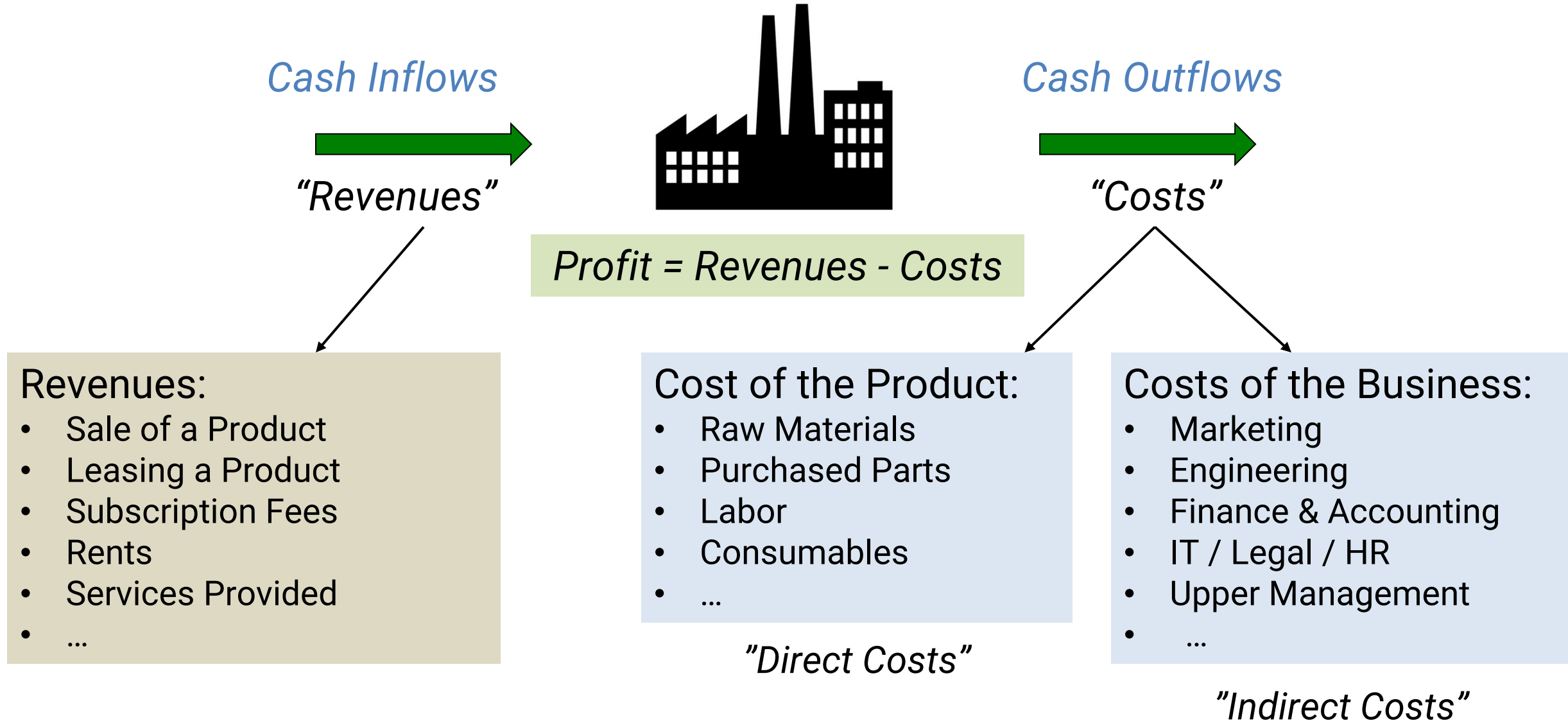
Total Expenses:     \$7,100

You decide what to do with your profit:

Save it for a rainy day

Spend it on discretionary items

# A Company's Revenues, Costs and Profits



# The Income Statement

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The Income Statement = a summary of the company's financial performance over a period of time (usually 1 year).

## *Key Elements of the Income Statement*

- Revenues (or Sales): money from sales of its products and services
- Cost of Sales (or Cost of Goods Sold - COGS): all costs associated with making the product
- Operating Expenses: all costs associated with running the business
- Net Income: how much is left over (also known as “the bottom line”)

# The Income Statement

*The format...*

Revenues

- Cost of Sales

Gross Profits

- Operating Expenses

Operating Income

+/- Interest Income/Expense

Income Before Taxes

-Taxes

Net Income

*"Direct Costs"*

*"Indirect Costs"*

*"Bottom Line"*

*Now we just fill in the details...*

# The Income Statement

BOULDER ENERGY SYSTEMS	2022	2021
Revenues	\$525,000	\$450,000
Cost of Goods Sold	\$315,000	\$290,000
Gross Profit	\$210,000	\$160,000
Gross Margin (%)	40%	36%
Operating Expenses:		
R&D	\$75,000	\$70,000
Marketing	\$50,000	\$45,000
General & Administrative	\$60,000	\$50,000
Depreciation & Amortization	\$10,000	\$5,000
Total Operating Expenses:	\$195,000	\$170,000
Operating Income:	\$15,000	\$(10,000)
Interest Income/Expense	\$2,000	\$0
Income Before Taxes	\$17,000	\$(10,000)

*Vertical Analysis*

*Horizontal Analysis*

*See the Income Statement Terminology document in Course Resources.*

# The Income Statement

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← *The money generated from sales of a product or service*

# The Income Statement

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← *What it cost to actually produce the product or service ("COGS")*



# The Income Statement

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← Revenue - COGS

# The Income Statement

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← *Gross Profit / Revenue*

# A Bit More on Gross Profit Margin

Gross Profit Margin (or “Gross Margin”) is defined as a % of Revenue:

$$\% \text{ Gross Margin} = (\text{Gross Profit} / \text{Revenue}) * 100$$

$$\text{where } \text{Gross Profit} = \text{Revenues} - \text{COGS}$$

High % Gross Margin:

- Very efficient production process (low COGS)
- Customers willing to pay higher price (high value for the product)

Low % Gross Margin:

- Inefficient production process (high COGS)
- Commodity products with steep price competition

# A Bit More on Gross Profit Margin

An industrial business making something other than a commodity product:

% Gross Profit Margins = 35-45%



Gross Margin = 39%

A software business has nearly zero COGS, therefore:

% Gross Profit Margins >80%



Gross Margin = 81%

# A Bit More on Gross Profit Margin



# Time for a Break...



# Credits & References

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Slide 13: GE Historical Stock Price Image, finance.yahoo.com, <https://finance.yahoo.com/chart/GE> (accessed June 1, 2022). GE logo, General Electric Company, Public domain, via Wikimedia Commons, [https://commons.wikimedia.org/wiki/File:General\\_Electric\\_logo.svg](https://commons.wikimedia.org/wiki/File:General_Electric_logo.svg) (accessed June 1, 2022).

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