

BA870 – Lecture 1

Overview of Income Statement

This tutorial should be viewed in conjunction with tutorials on 2 other main statements:

- Balance Sheet
- Statement of Cash Flows

Financial Statements

Parts of Financial Statements (3 Main Statements)

- Balance Sheet (Statement of Financial Position)
- **Income Statement (Statement of Operations)**
 - **Captures Actions**
 - **Deliver Product or Services → Revenues**
 - **When Product/Service Delivered → Report Expenses**
- Statement of Cash Flows
 - Captures when cash received by customers or paid to suppliers
 - Not when company completed its operations
- Not just a list of data!
 - 3 Statements are mathematically connected

Part 2: Income Statement

- **Income Statement (Statement of Operations)**
 - Results of operations (What was **received** and what was **paid** for regular business operations)
 - $\text{Net Income} = \text{Revenues} - \text{Expenses}$
 - Results for a period of time (Year or quarter year)
 - Example: 12 months ended June 20, 2020

Income Statement

- **Revenues (also listed as Sales, Credits or Gains)**
 - Typically listed as Net Sales or Net Revenues
 - Connection with Balance Sheet:
 - Revenues typically increase Assets and Shareholders' Equity on Balance Sheet
- **Expenses (also listed as Costs, Charges or Losses)**
 - Connection with Balance Sheet
 - Expenses typically decrease Assets and Shareholders' Equity on the Balance Sheet
- **Net Income (also listed as Net Earnings or Net Profits)**
 - Net Income = **Revenues – Expenses** = \$10 – \$3 = \$7
 - This does not necessarily mean a \$7 increase in cash

WAYFAIR INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year Ended December 31,		
	2017	2016	2015
Net revenue	\$ 4,720,895	\$ 3,380,360	\$ 2,249,885
Cost of goods sold	3,602,072	2,572,549	1,709,161
Gross profit	1,118,823	807,811	540,724
Operating expenses:			
Customer service and merchant fees	169,516	127,883	81,230
Advertising	549,959	409,125	278,224
Selling, operations, technology, general and administrative	634,801	467,020	262,620
Total operating expenses	1,354,276	1,004,028	622,074
Loss from operations	(235,453)	(196,217)	(81,350)
Interest (expense) income, net	(9,433)	694	1,284
Other income, net	758	1,756	2,718
Loss before income taxes	(244,128)	(193,767)	(77,348)
Provision for income taxes	486	608	95
Net loss	\$ (244,614)	\$ (194,375)	\$ (77,443)
Net loss per share, basic and diluted	\$ (2.81)	\$ (2.29)	\$ (0.92)
Weighted average number of common stock outstanding used in computing per share amounts, basic and diluted	86,983	84,977	83,726

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Gross Profit = Net Revenue – Cost of goods sold

Gross Profit % = Gross Profit/Net Revenue * 100%

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Would typically report “Income from Operations” if company was profitable

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Non-
operating
Income
and
expenses

Notes on Income Statement

Key Vocabulary:

- *Net Sales or Net Revenues "Net" of What?*
- *Gross Profit = Gross Income = Gross Margin = (Net) Sales – COGS*
- *Profit Margin = Net Income / Sales * 100%*
- *Gross Margin % = Gross Margin / Net Sales * 100%*
- *Net Operating Income = Gross Margin – Operating Expenses*
- *Net Income = Gross Margin – All Other Expenses +/- NonOperating Income*
(Net Income = Net Profits = Net Earnings)

Income Statement – Why data does not measure cash changes

Income Statement Uses “Accrual Method” to List Revenues & Expenses

- What does “Accrual Basis” mean for data science and analytics?
 - **Revenues** are based on companies actions: Record *revenues when* firm delivers goods & services, not when it is paid. NOT JUST CASH INFLOWS
 - **Expenses** are recognized when related goods and services delivered (not when cash was paid to employees or suppliers). NOT JUST CASH OUTFLOWS

Why Accrual Method for Income Statement?

- Makes *Income Statement* data more useful for capturing a company’s actions (often a better performance measure) – But, still look at cash inflows/outflows!