

**FABM 2: LESSON 3**

# **INCOME STATEMENT**

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# INCOME STATEMENT

- The **Income Statement** (also called the Statement of Comprehensive Income) displays the results of a company's operations over a specific timeframe.
- It is composed of three main elements: **Revenue, Cost, and Expenses.**

# FORMS

## NATURAL FORM (SINGLE - STEP)      Used primarily by **service** business

- Presents expenses according to their nature (e.g., salaries, rent, utilities).
- Calculates net income or loss in one step by deducting total expenses from total revenue.

## FUNCTIONAL FORM (MULTI - STEP)      Used primarily by **merchandising** business

- Groups expenses by function, such as cost of sales, selling, and administrative expenses.
- Requires multiple steps to reach net income, including first calculating **Gross Profit** (Net Sales minus Cost of Sales).

# KEY COMPONENTS AND TERMS

- **Net Sales:** The first line of a multi-step statement, calculated by taking Gross Sales and subtracting Sales Returns, Allowances, and Sales Discounts.
- **Cost of Sales:** Represents the cost of inventory sold; it is usually the largest expense for merchandising businesses.
- **Other Income:** Earnings from non-primary business activities, such as rent, dividends, interest, or gains on asset sales.
- **Distribution/Selling Expenses:** Costs directly related to selling products, including sales salaries, advertising, store utilities, and delivery/freight-out costs.

# KEY COMPONENTS AND TERMS

- **General/Administrative Expenses:** Costs for managing the office, such as office salaries, supplies, office depreciation, and bad debt provisions.
- **Finance Cost:** Interest paid on borrowed money.
- **Other Expenses:** Costs not tied to operating activities, such as a loss on the sale of assets.

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**THANKYOU**

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