



What is an income statement?

An income statement—sometimes called a profit and loss statement—is one of the primary [financial statements](#) an entity prepares. It reflects the entity’s financial performance over a specific period of time—for instance the month of June.

The income statement includes the following financial components of an entity’s business:

- **Revenue:** the value of the products or services sold
- **Expenses:** the value of expenses incurred, such as labor costs, rent, interest expense, or tax expense
- **Net Income (Loss):** the amount of profit the entity made or loss it incurred after subtracting all its expenses from its revenue

Did You Know?

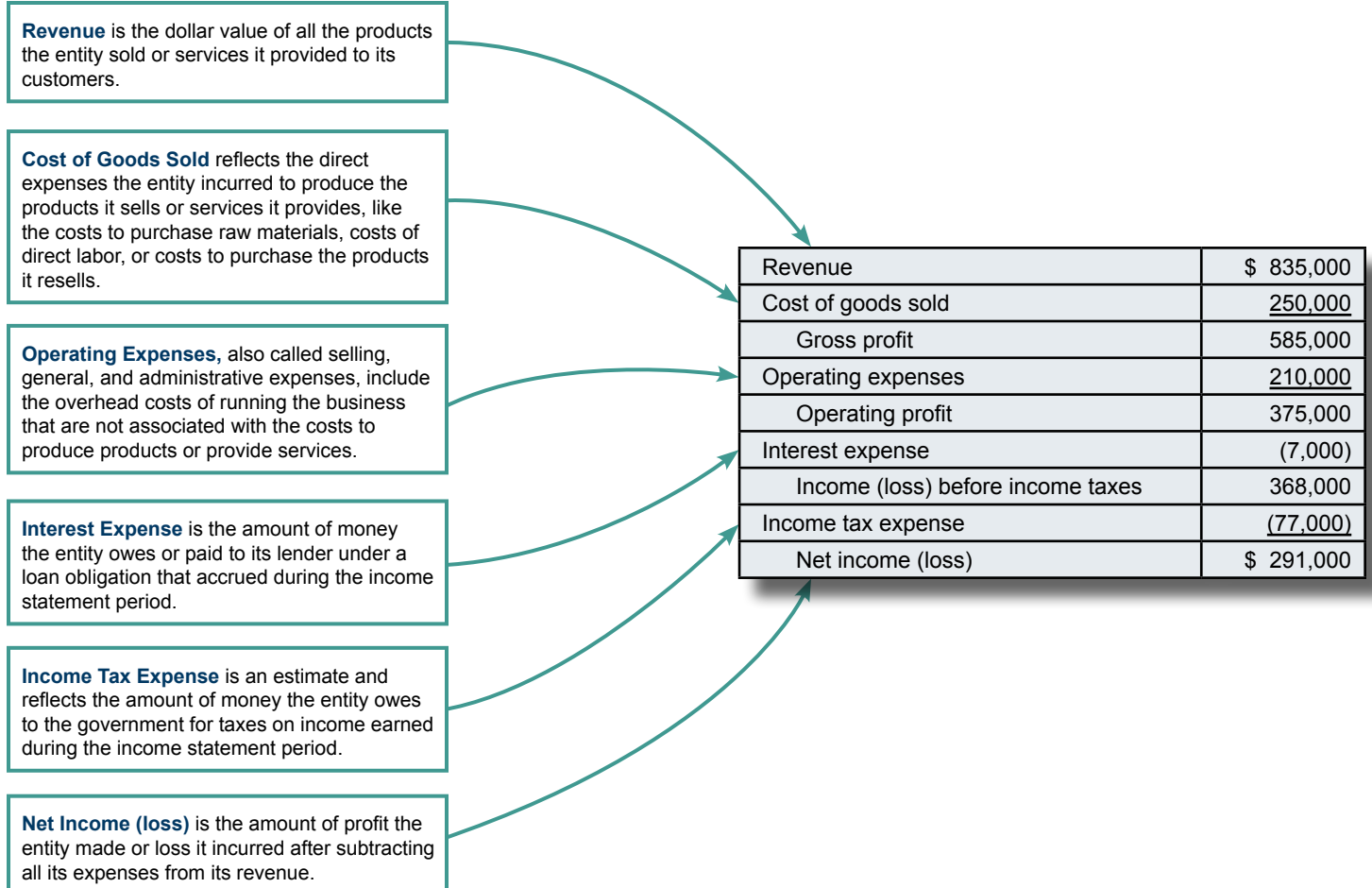
The net income or net loss (also known as the “bottom line”) reported on the income statement moves into the retained earnings/accumulated loss account on the balance sheet at the end of each month. Net income increases retained earnings or reduces accumulated loss. Net loss reduces retained earnings or increases accumulated loss.



The income statement can be reflected in the following equation:

$$\text{Revenue} - \text{Expenses} = \text{Net Income (Loss)}$$

Anatomy of an income statement



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What is an income statement? *(continued)*

What else do I need to know about the income statement?



What is amortization?

Amortization is an expense that recognizes the loss in value of an intangible asset over its estimated economic life. It decreases the value of that asset as reflected on the entity's balance sheet—also called book value. Intellectual property is an example of an intangible asset that is amortized.



What is depreciation?

Depreciation is an expense that recognizes the loss in value of a tangible asset or fixed asset over its estimated useful life. It decreases the book value of that asset. Examples of tangible assets that are depreciated include equipment and buildings.



What is earnings per share or EPS?

Earnings per share—often called EPS—represents the portion of the entity's net income or profit allocated to each share of outstanding common stock.

Basic EPS includes only shares of issued and outstanding common stock whereas Diluted EPS includes shares of issued and outstanding common stock plus the common stock share equivalent of other securities that can be converted into or exercised for shares of common stock.

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