



The Income Statement

The Income Statement reports a company's revenues, expenses, and taxes over a specified period of time.

Common Line Items

Revenue: Revenue represents the value of the products and/or services that a company sells. It is recorded when the transaction is processed – even though the cash may not be received at the time of the transaction (more on this later). It is often referred to as the “top line.”

Cost of Goods Sold (COGS): COGS represents the expenses that are linked directly to the sale of those products and/or services (e.g. COGS for a store that sells burgers would represent the cost of the ingredients of the burger). $COGS = \text{Beginning inventory} + \text{net purchases (or cost of goods)} - \text{Ending inventory}$.

Operating Expenses: Operating Expenses are items that are not directly linked to product sales. Examples include employee salaries, rent, marketing costs, research and development costs, as well as non-cash expenses such as Depreciation. Common Operating Expenses categories include Sales, General & Administrative (SG&A) and Research & Development (R&D).

Depreciation & Amortization (D&A): Depreciation and Amortization are non-cash expenses that measure the loss in value of assets over time. Depreciation record the loss in value of *tangible* assets, including machinery, manufacturing equipment, and business vehicles, whereas Amortisation accounts for the loss in value of *intangible assets*, non-physical assets that are nonetheless essential to a company, including patents, trademarks, and copyrights. Usually D&A are often embedded within COGS or Operating Expenses, and their total number can only be found by looking at the Cash Flow Statement.

Stock-Based Compensation: Stock-Based Compensation represents the cost of paying employees with stock rather than with cash. Like D&A, this is a non-cash expense and is often embedded within Operating Expenses.

Interest Expense: Interest Expense represents expenses related to paying debt holders periodic payments

Net Income: Net Income is the after-tax profits available to common shareholders after debt payments have been made. Broadly speaking, $\text{Net Income} = \text{Revenue} - \text{Expenses} - \text{Taxes}$. It is the last line of the Income Statement and is thus commonly referred to as the “bottom line.”



What Affects the Income Statement?

Line items that affect the Income Statement have the following characteristics:

- a) They **affect the company's taxes** by either increasing or reducing the company's taxable income
- b) They **correspond to the specific period covered by the Income Statement**

Affects the Income Statement

- Revenue
- COGS
- Operating Expenses
- D&A
- Stock-based compensation
- Interest Income and Expenses
- Gains/Losses
- Write-Downs
- Impairments
- Taxes

Does NOT affect the Income Statement

- Capital Expenditures
- Purchasing or selling investments
- Dividends
- Issuing or Repaying Debt Principal
- Issuing or Repurchasing Shares