

INCOME STATEMENT CHEAT SHEET



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The **Income Statement (IS)**, also known as the **Profit & Loss Statement (P&L)**, stands as a cornerstone financial document for businesses, analysts, and investors. It provides a clear view of a company's financial performance **over specific intervals**, be it a month, a quarter, year-to-date (YTD), or an entire year. The statement delineates the company's **revenues** (money coming in) and **expenses** (money going out), thus revealing whether the firm turned a profit or faced a loss. Essentially, the Income Statement sheds light on a company's efficiency in managing its resources for profit generation. Alongside the **Balance Sheet** and the **Statement of Cash Flows**, it forms the trifecta of critical financial statements issued by businesses.

P&L General Structure

	<u>FY 2023</u>
Revenues (or Sales)	
Gross Sales	150'000
Sales Returns & Allowances	20'000
Net Sales	130'000
Cost of Goods Sold (COGS)	
COGS	50'000
Manufacturing Expenses	10'000
Gross Profit	70'000
Operating Expenses	
Selling Expenses	1'500
General & Admin. (G&A) Expenses	5'500
Research and Development (R&D)	3'000
Depreciation & Amortization Expenses	1'000
Operating Income	59'000
Other Income and Expenses	
Interest Income	800
Interest Expense	700
Other Miscellaneous Income	100
Other Miscellaneous Expense	200
Pre-Tax Income	59'000
Income Tax Expenses	
Taxes	20'650
Net Income	38'350

Other Useful information

Number of outstanding shares = 10'000 and market share price = 20

Descriptions and Main Formulas

Explanations

Total sales before any returns or discounts

Deductions from sales due to returned goods or allowances given

Net Sales = Gross Sales - Sales Returns & Allowances

Cost of the goods that were sold during the period (Labor, Materials, Manuf. overheads ...)

Other Fixed Manufacturing Expenses

Gross Profit = Net Sales - COGS - Manufacturing Expenses

Costs related to the sale of products/services (e.g., sales commissions, advertising)

Overhead costs not directly tied to production (e.g., salaries, rent, utilities)

Costs related to the Research & Development

Expenses for the use of long-term assets like buildings and equipment

Operating Income (or Operating Profit): Gross Profit - Operating Expenses

Revenue from investments

Cost of borrowing

Unusual or non-recurring income

Unusual or non-recurring expenses

Pre-Tax Income = Operating Income + Other Income - Other Expenses

The amount of tax owed based on pre-tax income

Net Income (or Net Profit or Net Earnings) = Pre-Tax Income - Income Tax Expense

Main Income Statement Ratios, Formulas, and Interpretations

Ratio	Formula	Interpretation	Our Example
Gross Profit Margin	Gross Profit / Net Sales	Percentage of revenue that exceeds the COGS. Higher values indicate better profitability.	53.8%
Operating Profit Margin	Operating Income / Net Sales	Percentage of revenue that remains after deducting operating expenses.	45.4%
Net Profit Margin	Net Income / Net Sales	Percentage of revenue that remains as profit after all expenses. A key measure of profitability.	29.5%
Return on Sales	Net Income / Net Sales	Efficiency of the company in converting sales to profit. Equivalent to Net Profit Margin.	29.5%
Earnings Per Share (EPS)	Net Income / Number of Outstanding Shares	Earnings attributable to each share of common stock. Indicates profitability on a per-share basis.	3.8
Price-to-Earnings Ratio (P/E)	Market Price Per Share / EPS	Measures the price investors are willing to pay for every dollar of earnings. High P/E may suggest overvaluation or high growth expectations.	5.2
Effective Tax Rate	Income Tax Expense / Pre-Tax Income	Percentage of pre-tax income that is paid in taxes. Reflects the actual tax rate a company pays.	35.0%

Note: Ratios always need to be interpreted in the context of the specific industry, the overall economy, and the company's previous financial performance. Comparing them to industry benchmarks or competitors can provide a clearer picture of a company's performance. Always use financial ratios as tools in conjunction with other analyses.