

### **Income Statement**

- List of all Revenues and Expenses incurred over a period of time
  - Revenues = income from sale of products & services
  - Expenses = Operating Expenses & Overhead Expenses
  - Usually for a 1-year period
- Also called Profit & Loss Statement (P&L)
- Shows the profitability of the business
  - The "bottom line" shows your net income or profit for the period



### **Income Statement**

- Can use Schedule F (Farm) or Schedule C (Business) as a format
- Usually part of a loan application
- Managers use it to improve the profitability of the business
- Used to:
  - Measure the profitability of the firm over a specific time period
    - Net Farm Income
    - Weekly, Monthly, Quarterly, Yearly, etc.
  - Measure the ability of the business to repay its loans
    - Repayment ability



## Sections of an Income Statement

- Revenues from sales of products and services
  - List revenues from each product/service separately
- Other revenues (custom work, gov. payments, etc.)
- Loan principal is NOT a revenue



# Sections of an Income Statement

- Operating (Variable) expenses
  - Feed, seed, fertilizer, labor
    aka "Cost of Goods Sold"
- Overhead (Fixed) expenses
- Administrative costs, office rent, property taxes
- Depreciation expense
- Interest paid that period
- Principal payments are NOT included as expenses



### Sections of an Income Statement

- Gross Margin
  - This is not always included on an income statement
  - Gross Margin = Revenues Total Operating Expenses
  - You want to see your gross margin > \$0
- Profits (Net Income, Net Farm Income)
  - The "bottom line"
  - Profits = Revenues Total Expenses
  - You want Profits (Net Income) > \$0



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